

**Before the**  
**South Carolina Public Service Commission**

<b>In Re: Application of South Carolina Electric</b>	<b>)</b>	
<b>&amp; Gas Company for Adjustments and</b>	<b>)</b>	
<b>Increases in Its Electric Rate Schedules and</b>	<b>)</b>	<b>Docket No. 2009-489-E</b>
<b>Tariffs</b>	<b>)</b>	

**Prepared Direct Testimony**

**of**

**Kevin W. O'Donnell, CFA**

**On Behalf of the**

**South Carolina Energy Users Committee (SCEUC)**

**May 3, 2010**

**BEFORE THE SOUTH CAROLINA PUBLIC SERVICE  
COMMISSION**

**DOCKET NO. 2009-489-E**

**DIRECT TESTIMONY OF KEVIN W. O'DONNELL, CFA**

1   **Q.   PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**  
2       **FOR THE RECORD.**

3   A.   My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,  
4       Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina  
5       27511.

6  
7   **Q.   ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
8       **PROCEEDING?**

9   A.   I am testifying on behalf of the South Carolina Energy Users Committee  
10       (SCEUC), which is an association comprised of large industrial consumers, many  
11       of which take electric supply service from South Carolina Electric & Gas.

12  
13   **Q.   PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
14       **RELEVANT EMPLOYMENT EXPERIENCE.**

15   A.   I have a Bachelor of Science in Civil Engineering from North Carolina State  
16       University and a Master of Business Administration from the Florida State  
17       University. I have worked in utility regulation since September 1984, when I  
18       joined the Public Staff of the North Carolina Utilities Commission (NCUC). I left  
19       the NCUC Public Staff in 1991 and have worked continuously in utility  
20       consulting since that time, first with Booth & Associates, Inc. (until 1994), then as  
21       Director of Retail Rates for the North Carolina Electric Membership Corporation  
22       (1994-1995), and since then in my own consulting firm. I have been accepted as

1 an expert witness on rate of return, cost of capital, capital structure, and other  
2 regulatory issues in general rate cases, fuel cost proceedings, and other  
3 proceedings before the North Carolina Utilities Commission, the South Carolina  
4 Public Service Commission (SC P.S.C.), and the Florida Public Service  
5 Commission (FL P.S.C.). In 1996, I testified before the U.S. House of  
6 Representatives, Committee on Commerce, and Subcommittee on Energy and  
7 Power, concerning competition within the electric utility industry. Additional  
8 details regarding my education and work experience are set forth in Appendix A  
9 to my direct testimony.

10  
11 **Q. PLEASE SUMMARIZE YOUR PRIMARY RECOMMENDATIONS IN**  
12 **THIS CASE.**

13 **A.** My recommendations in this case are as follows:

- 14 • the proper return on equity on which to set rates for SCE&G in this  
15 proceeding is 9.50%;
- 16 • the Company's requested capital structure is improper for ratemaking  
17 purposes and will result in excessive profits to SCANA Corp. at the  
18 expense of captive ratepayers;
- 19 • the proper capital structure to use in setting rates is the SCANA Corp.  
20 capital structure as of Sept. 30, 2009;
- 21 • the return on equity recommended by Company Witness Hevert is  
22 excessive and unreasonable;
- 23 • the testimony of Company Witness Cannell is unnecessary and consumers  
24 should not be required to pay her rate case expenses in this case;
- 25 • the Company's request for consumers to pay employee and executive  
26 bonuses should be disallowed;
- 27 • the Wateree scrubbers should not be included in rate base;
- 28 • as a result of my recommendations in this case, rates for consumers should  
29 rise no more than \$53.1 million; and

- 1                   • the overall rate design as proposed by the Company in this case is  
2                   reasonable, but the actual rate changes should be adjusted proportionately  
3                   downward for the above stated \$53.1 million rate increase.  
4

5   **Q.   HOW IS YOUR TESTIMONY STRUCTURED?**

6   A.   The remainder of my testimony is divided into nine sections as follows:

7       I.   Economic and Legal Guidelines for Fair Rate of Return

8       II. Cost of Common Equity

9           A.   DCF Analysis

10          B.   Comparable Earnings Analysis

11          C.   Return on Equity Recommendation

12          D.   Capital Structure

13          E.   Overall Rate of Return Recommendation

14          F.   Review of Company Witness Hevert's Testimony

15          G.   Review of Company Witness Cannell's Testimony

16       III. Accounting Adjustments

17       IV. Cost of Service Study and Rate Design

18       V. Summary

19  
20   **I. ECONOMIC AND REGULATORY POLICY GUIDELINES**

21                   **FOR A FAIR RATE OF RETURN**

22  
23   **Q.   PLEASE BRIEFLY DESCRIBE THE ECONOMIC AND REGULATORY**  
24   **POLICY CONSIDERATIONS YOU HAVE TAKEN INTO ACCOUNT IN**  
25   **DEVELOPING YOUR RECOMMENDATION CONCERNING THE FAIR**  
26   **RATE OF RETURN THAT SCE&G SHOULD BE ALLOWED THE**  
27   **OPPORTUNITY TO EARN.**

28   A.   The theory of utility regulation assumes that public utilities are natural  
29       monopolies. Historically, it was believed or assumed that it was more efficient

1 for a single firm to provide a particular utility service than multiple firms. Even  
2 though deregulation for the procurement of natural gas and generation of electric  
3 power and energy is spreading, the delivery of these products to end-use  
4 customers will continue to be considered a natural monopoly for the foreseeable  
5 future. When it is deemed that a perceived natural monopoly does in fact exist,  
6 regulatory authorities regulate the service areas in which regulated utilities  
7 provide service, e.g. by assigning exclusive franchised territories to public utilities  
8 or by determining territorial boundaries where disputes arise (as in Florida), in  
9 order for these utilities to provide services more efficiently and at the lowest  
10 possible cost. In exchange for the protection of its monopoly service area, the  
11 utility is obligated to provide adequate service at a fair, regulated price.

12  
13 This naturally raises the question - what constitutes a fair price? The generally  
14 accepted answer is that a prudently managed utility should be allowed to charge  
15 prices that allow the utility the opportunity to recover the reasonable and prudent  
16 costs of providing utility service and the opportunity to earn a fair rate of return  
17 on invested capital. This fair rate of return on capital should allow the utility,  
18 under prudent management, to provide adequate service and attract capital to meet  
19 future expansion needs in its service area. Obviously, since public utilities are  
20 capital-intensive businesses, the cost of capital is a crucial issue for utility  
21 companies, their customers, and regulators. If the allowed rate of return is set too  
22 high, then consumers are burdened with excessive costs, current investors receive  
23 a windfall, and the utility has an incentive to overinvest. If the return is set too  
24 low, adequate service is jeopardized because the utility will not be able to raise  
25 new capital on reasonable terms.

26  
27 Since every equity investor faces a risk-return tradeoff, the issue of risk is an  
28 important element in determining the fair rate of return for a utility.

1 Regulatory law and policy recognize that utilities compete with other forms in the  
2 market for investor capital. In the case of Federal Power Commission v. Hope  
3 Natural Gas Company, 320 U.S. 591 (1944), the U.S. Supreme Court recognized  
4 that utilities compete with other firms in the market for investor capital.  
5 Historically, this case has provided legal and policy guidance concerning the  
6 return which public utilities should be allowed to earn:

7  
8 In that case, the U.S. Supreme Court specifically stated that:

9 "...the return to the equity owner should be commensurate with  
10 returns on investments in other enterprises having corresponding  
11 risks. That return, moreover, should be sufficient to assure  
12 confidence in the financial integrity of the enterprise so as to  
13 maintain credit and attract capital." (320 U.S. at 603)

## 14 15 II. COST OF COMMON EQUITY 16

17 **Q. PLEASE EXPLAIN HOW THE ISSUE OF DETERMINING AN**  
18 **APPROPRIATE RETURN ON A UTILITY'S COMMON EQUITY**  
19 **INVESTMENT FITS INTO A REGULATORY AUTHORITY'S**  
20 **DETERMINATION OF FAIR, JUST, AND REASONABLE RATES FOR**  
21 **THE UTILITY.**

22 **A.** In South Carolina and in all regulatory jurisdictions, a utility's rates must be "fair,  
23 just, and reasonable." As noted above, regulation recognizes that utilities are  
24 entitled to an opportunity to recover the reasonable and prudent costs of providing  
25 service, and the opportunity to earn a fair rate of return on the capital invested in  
26 the utility's facilities, such as power plants, transmission lines, distribution lines,  
27 buildings, vehicles, and similar long-lived capital assets. Utilities obtain capital  
28 funding through a combination of borrowing (debt financing) and issuing stock.  
29 The allowed return on equity (ROE) is the amount that is determined to be  
30 appropriate for the utility's common stockholders to earn on the capital that they  
31 contribute to the utility when they buy its stock. If the regulatory authority sets

1 the ROE too low, the stockholders will not have the opportunity to earn a fair  
2 return; if the regulatory authority sets the ROE too high, the customers will pay  
3 too much, and the resulting rates will be unfair and unreasonable

4 **Q. HOW DO REGULATORY AUTHORITIES GO ABOUT DETERMINING**  
5 **WHAT IS A FAIR RATE OF RETURN ON EQUITY?**

6 A. Regulatory commissions and boards, as well as financial industry analysts,  
7 institutional investors, and individual investors, use different analytical models  
8 and methodologies to estimate/calculate reasonable rates of return on equity.  
9 Among the measures used are "Discounted Cash Flow" or "DCF" analysis and  
10 "Comparable Earnings Analysis." Sometimes a technique called the "Capital  
11 Asset Pricing Model" or "CAPM" method is used. I believe that the two most  
12 useful methodologies are DCF Analysis and the Comparable Earnings Analysis.

13 **A. Discounted Cash Flow (DCF) Analysis**

14 **Q. CAN YOU PLEASE EXPLAIN THE DISCOUNTED CASH FLOW**  
15 **METHOD?**

16 A. Yes. The DCF method is a widely used method for estimating an investor's  
17 required return on a firm's common equity. In my twenty-five years of experience  
18 with the Public Staff of the North Carolina Utilities Commission and as a  
19 consultant, I have seen the DCF method used much more often than any other  
20 method for estimating the appropriate return on common equity. Consumer  
21 advocate witnesses, utility witnesses and other intervenor witnesses have used the  
22 DCF method, either by itself or in conjunction with other methods such as the  
23 Comparable Earnings Method or the Capital Asset Pricing Model, in their  
24 analyses.

25

26 The DCF method is based on the concept that the price which the investor is  
27 willing to pay for a stock is the discounted present value or present worth of what  
28 the investor expects to receive as a result of purchasing that stock. This return to  
29 the investor is in the form of future dividends and price appreciation. However,

price appreciation can be ignored since appreciation in price is only realized when the investor sells the stock. Therefore, the only income that the investor will receive from the company in which it invests is the dividend stream. Mathematically, the relationship is:

Let D = dividends per share in the initial future period  
g = expected growth rate in dividends  
k = cost of equity capital  
P = price of asset (or present value of a future stream of dividends)

$$\text{then } P = \frac{D}{(1+k)} + \frac{D(1+g)}{(1+k)^2} + \frac{D(1+g)}{(1+k)^3} + \frac{D(1+g)}{(1+k)^t}$$

This equation represents the amount (P) an investor will be willing to pay for a share of common equity with a given dividend stream over (t) periods.

Reducing the formula to an infinite geometric series, we have:

$$P = \frac{D}{k-g}$$

Solving for k yields:

$$k = \frac{D}{P} + g$$

**Q. MR. O'DONNELL, DO INVESTORS IN UTILITY COMMON STOCKS REALLY USE THE DCF MODEL IN MAKING INVESTMENT DECISIONS?**

**A.** Absolutely. Utility investors tend to be individuals or institutions interested in current income. The average stock investor interested in income will use the DCF to calculate how much funds he/she will receive relative to the initial investment, which is defined as the current dividend yield and the amount of funds that the



1 investor can expect in the future from the growth in the dividend. Both of these  
2 components are central to the basic tenet of the DCF model that combines a  
3 dividend yield and a growth rate for dividends to derive the overall rate of return.

4 **Q. HAVE YOU USED THE DCF MODEL IN ANALYZING COMMON**  
5 **STOCKS FOR INVESTMENT PURPOSES?**

6 A. Yes. I have used and continue to use the DCF method extensively in analyzing  
7 common stocks for potential personal purchases as well as for purchases  
8 contemplated for money management clients that I have served.

9

10 Although the DCF formula stated above may appear complicated, the DCF  
11 method is intuitively a very simple model to understand. To determine the total  
12 rate of return one expects from investing in a particular equity security, the  
13 investor adds the dividend yield which he or she expects to receive in the future to  
14 the expected growth in dividends over time. If the regulatory authority sets the  
15 rate at a fair level, the utility will be able to attract capital at a reasonable cost,  
16 without forcing the utility's customers to pay more than necessary to attract  
17 needed capital.

18

19 Unlike models such as the CAPM that are more theoretical and academic in  
20 nature, the DCF is grounded in solid practicality that is used by money managers  
21 and individual investors throughout the world on a daily basis.

22 **Q. CAN YOU GIVE AN EXAMPLE?**

23 A. Yes. If investors expect a current dividend yield of 6%, and also expect that  
24 dividends will grow at 4%, then the DCF model indicates that investors would  
25 buy the utility's common stock if it provided a return on equity of 10%.

26 **Q. HAVE YOU PREPARED ANY ANALYSES USING THE DCF METHOD**  
27 **TO EVALUATE A FAIR RATE OF RETURN FOR SCE&G?**

28 A. Yes, I have. First, I identified a group of 41 comparable companies and then  
29 proceeded to evaluate their current and projected dividend yields and growth.

1

2 I developed this group of comparable companies to ensure that the return on  
3 equity for SCE&G developed in this analysis is consistent with the returns which  
4 can be obtained from similar equity investments in the open market.

5

6 I was not able to perform a DCF analysis directly on SCE&G since it is a  
7 subsidiary of SCANA Corp. However, since SCANA is publicly traded, I was  
8 able to perform a rate of return analysis on the parent company.

9 **Q. PLEASE EXPLAIN HOW YOU SELECTED THESE 41 COMPANIES**  
10 **FOR YOUR COMPARABLE GROUP**

11 A. All of the companies in my comparable group are listed in The Value Line  
12 Investment Survey "Electric Utility Industry" group.

13

14 A further screen I used in developing my comparable group of companies was to  
15 include only those companies in the comparable group that have an S&P Quality  
16 Rating of B, which is the quality rating for SCANA, or B+, the next highest  
17 quality rating. This quality rating is an appropriate screening method because the  
18 S&P Quality Rating measures stability of earnings and dividends.

19

20 I also chose to exclude companies that either paid no dividend, had recently  
21 reinstated their dividends, had recently purchased another company, or were the  
22 subject of takeover discussions. Since SCANA's dividend is secure and, to my  
23 knowledge, SCANA is not involved in any merger discussions, I omitted  
24 companies that met the above criteria.

25 **Q. WHAT DIVIDEND YIELD DO YOU THINK IS APPROPRIATE FOR USE**  
26 **IN THE DCF MODEL?**

27 A. I have calculated the appropriate dividend yield by averaging the dividend yield  
28 expected over the next 12 months for each comparable company, as reported by  
29 the Value Line Investment Survey. The period covered is from December 26,

2009, through March 19, 2010. To study the short-term as well as long-term movements in dividend yields, I examined the 13-week, 4-week, and 1-week dividend yields for the comparable group. My results appear in O'Donnell Exhibit No. KWO-1 and show a dividend yield range of 4.9% to 5.0% for the comparable group and 5.2% to 5.3% for SCANA Corp. during the three time periods that I examined

**Q PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELD RANGES DISCUSSED ABOVE?**

A. I developed the dividend yield range for the comparable group by averaging each Company's dividend yield over the above-stated 13-week and 4-week periods, as well as examining the most recent dividend yield reported by Value Line for each company.

**Q. HOW DID YOU DERIVE THE EXPECTED GROWTH RATE?**

A. I used several methods in determining the growth in dividends that investors expect. The first method I used was an analysis commonly referred to as the "plowback ratio" method. If a company is earning a rate of return (r) on its common equity, and it retains a percentage of these earnings (b), then each year the earnings per share (EPS) are expected to increase by the product (br) of its earnings per share in the previous year. Therefore, br is a good measure of growth in dividends per share. For example, if a company earns 10% on its equity and retains 50% (the other 50% being paid out in dividends), then the expected growth rate in earnings and dividends is 5% (50% of 10%). To calculate a plowback for the comparable group, I used the following formula:

$$g = \frac{br (2008/2009) + br (2009/2010E) + br (2010E/2011E) + br ('12E-'14E/'13E-'15E \text{ Avg})}{4}$$

The plowback estimates for all companies in the comparable group can be obtained from The Value Line Investment Survey under the title "percent retained to common equity." Exhibit No. KWO-3 lists the plowback ratios for each

1 company in the comparable group. This exhibit contains one reference to "NMF"  
2 which is the abbreviation for "no meaningful figure." When "NMF" appears, a  
3 company's earnings were less than the dividend paid out, which means that the  
4 Company did not reinvest or "plowback" any earnings from that year's operations.  
5 For purposes of being conservative, I treated the "NMF" entries as 0 for purposes  
6 of my analysis. The plowback method is a very useful tool for comparing the  
7 comparable group's growth rates on a recent historical basis, as well as a short-  
8 term forecasted basis.

9  
10 A key component in the DCF Method is the expected growth in dividends. In  
11 analyzing the proper dividend growth rate to use in the DCF Method, the analyst  
12 must consider how dividends are created. Since dividends cannot be paid out  
13 without the company first earning the funds paid out, earnings growth is a key  
14 element in analyzing the expected growth in dividends. Similarly, what remains in  
15 a company after it pays its dividend is reinvested, or "plowed back," into the  
16 company in order to generate future growth. As a result, book value growth is  
17 another element that, in my opinion, must be considered in analyzing a company's  
18 expected dividend growth. To analyze the expected growth in dividends, I believe  
19 the analyst should first examine the historical record of past earnings, dividends,  
20 and book value. Hence, the second method I used to estimate the expected  
21 growth rate was to analyze the historical 10-year and 5-year historical compound  
22 annual rates of change for earnings per share (EPS), dividends per share (DPS),  
23 and book value per share (BPS) as reported by Value Line.

24  
25 Value Line is the most recognized investment publication in the industry and, as  
26 such, is used by professional money managers, financial analysts, and individual  
27 investors worldwide. A prudent investor examines all aspects of a company's  
28 performance when making a capital investment decision. As such, it is only  
29 practical to examine historical growth rates for the company for which the

1 analysis is being performed. The historical growth rates for the comparable group  
2 can be seen in O'Donnell Exhibit No. KWO-1.

3  
4 The third method I used was the Value Line forecasted compound annual rates of  
5 change for earnings per share, dividends per share, and book value per share.

6  
7 The fourth method I used was the forecasted rate of change for earnings per share  
8 that analysts supplied to Charles Schwab & Co. This forecasted rate of change is  
9 not a forecast supplied by Charles Schwab & Co., but is, instead, a compilation of  
10 forecasts by industry analysts.

11  
12 The details of my DCF results can be seen in Exhibit No. KWO-1 and a summary  
13 of these results can be found in Exhibit No. KWO-2.

14  
15 Once I gathered all the above data, I examined the results as found in Exhibit Nos.  
16 KWO-1 and KWO-2. It is important, in my view, to attempt to understand the  
17 reasons why the various data results appear. For example, in the early 1980s,  
18 utilities were undergoing expansion of base load plants that caused earnings  
19 growth to slow substantially. However, in the early 1990s, most baseload plant  
20 construction had ended and utilities were flush with a good bit of cash thereby  
21 creating, for the most part, solid earnings growth. It is important, therefore, to  
22 understand current and past market conditions so the analyst can use his/her best  
23 judgment in determining the market expected dividend growth rate in the future.

24 **Q. WHAT IS THE INVESTOR RETURN REQUIREMENT FROM THE DCF**  
25 **ANALYSIS?**

26 **A.** As can be seen on Exhibit KWO-1, the dividend yield for the three time frames  
27 studied ranges from 4.9% to 5.0% for the comparable group and 5.2% to 5.3% for  
28 SCANA Corp. For purposes of this analysis, I believe the proper dividend yield to

1 use in the DCF analysis is in the range of 5.0% for the comparable group and  
2 5.25% for SCANA Corp.

3  
4 In terms of the proper dividend growth rate to employ in this analysis, I believe  
5 that it is appropriate to examine the recent history of earnings and dividend  
6 growth to assess and provide the best estimate of the dividend growth that  
7 investors expect in the future. A quick examination of the 10-year and 5-year  
8 historical growth rates for the comparable group show vividly the problems in the  
9 electric industry over the past decade.

10  
11 The future of the utility industry can, in my opinion, be described as "back to the  
12 future" in which utilities will expand their earnings by expanding and growing  
13 their rate base investments through large capital projects. Throughout the 1990s  
14 and earlier this decade, it was rare to see a general rate case for any utility in the  
15 southeastern U.S. Today, however, utilities across the country are coming in for  
16 rate cases at an increasing pace. The future holds much the same, as numerous  
17 large power plant investments are currently being planned. SCE&G has forecast  
18 additional rate increases over the next 10 years as the utility builds a nuclear  
19 plant. Thus, it is reasonable to expect that the next ten years should look  
20 somewhat like the 1980s when utilities were involved in large generation  
21 construction projects.

22  
23 Due to the effects of fundamental changes that have occurred in the utility  
24 industry over the past ten years, I believe that it is proper to place more weight on  
25 forecasted figures than historical figures in estimating the cost of equity for the  
26 comparable group. As a result, I believe that the proper growth rate range for the  
27 comparable group of companies to use in the DCF analysis is 4.0% to 4.5%. This  
28 growth rate range recognizes that most electric utilities will be undergoing plant  
29 expansions in the near term and simply cannot be expected to grow their

1 dividends at the same pace of earnings growth. Thus, the 4.0% to 4.5% growth  
2 rate range is right in the middle of the range for the comparable group's growth  
3 rates for the plowback method as well as Value Line's forecasted dividends and  
4 book value per share.

5  
6 Combining the comparable group's dividend yield range of 5.0% with the growth  
7 rate range of 4.0% to 4.5% produces a DCF range of 9.0% to 9.5%.

8  
9 For SCANA, I believe the proper growth rate range is in the range of 3.5% to  
10 4.0%. The lower end of the range is appropriate since it is in the middle of the  
11 forecasted SCANA EPS, DPS, and BPS figures as shown in Exhibit KWO-1. I  
12 believe 4.0% is appropriate for the upper end of the range because it is  
13 approximately equal to the forecasted EPS figures as shown by Value Line and  
14 Schwab.

15  
16 SCANA is in the midst of a construction cycle. Its payout ratio, which is a  
17 measure of the dividend payout relative to earnings needed to pay the dividend, is  
18 high, thereby indicating that future dividend increases will be minimal. Since the  
19 DCF formula is predicated on future dividend growth, it would be, as stated  
20 above, inaccurate to use only earnings growth rates in the DCF. Doing so  
21 produces unrealistically high return on equity numbers that cannot be sustained in  
22 real life. To mitigate this problem, I have presented EPS, DPS, and BPS figures to  
23 the Commission and systematically explained my rationale for arriving at the  
24 above stated growth rates. I believe it is incumbent upon every analyst presenting  
25 testimony in this case to present such a robust analysis to the Commission.

26  
27 Combining SCANA's dividend yield range of 5.25% with the growth rate range  
28 of 3.5% to 4.0% produces a DCF range of 8.75% to 9.25%.

1 The above-stated comparable group cost of equity range represents only one  
2 analysis I used in the examination of the proper cost of equity to apply in the  
3 current rate case.

4 **B. Comparable Earnings Analysis**

5  
6 **Q. MR. O'DONNELL, WOULD YOU PLEASE EXPLAIN WHY YOU**  
7 **PERFORMED A COMPARABLE EARNINGS ANALYSIS IN ADDITION**  
8 **TO YOUR DCF ANALYSIS?**

9 A. Yes. The comparable earnings method provides investors with actual historical  
10 earned returns on common equity. Investors use this information as a guide to  
11 assess an investment's current required rate of return. I used the comparable  
12 earnings method in my analysis in this case to assess the reasonableness of my  
13 DCF results and to provide an independent methodological estimate of the return  
14 that investors would consider reasonable for SCE&G.

15 **Q. WOULD YOU PLEASE EXPLAIN HOW YOU PERFORMED THE**  
16 **COMPARABLE EARNINGS ANALYSIS?**

17 A. O'Donnell Exhibit No. KWO-4 presents a list of the earned returns on equity of  
18 the comparable group over the period of 2008 through 2014. I picked this range  
19 so as to provide the Commission with two years of historical returns as well as  
20 two years of forecasted returns. As can be seen in this exhibit, the comparable  
21 companies' earned returns on equity were 9.5% in 2008 and 9.2% in 2009. The  
22 forecasted return on equity for the comparable companies is expected to increase  
23 slightly in the future with returns of 10.0% and 10.4%, respectively. Over the past  
24 two years, SCANA has performed slightly better than the average of the  
25 comparable companies with returns of 11.4% in 2008 and 10.2% in 2009. Over  
26 the next four years, however, the estimated return on equity for SCANA is 10.0%.

27 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM THE COMPARABLE**  
28 **EARNINGS ANALYSIS?**



1 A. Based on the above-stated findings, I believe the proper rate of return using a  
2 comparable earnings analysis is in the range of 9.5% to 10.5%. The 9.5% lower  
3 end of the range is equal to the earned return on equity of the comparable group in  
4 2008 and the 10.5% return on equity for the high end of the range is close to the  
5 forecasted return on equity of the comparable companies.

6

7

### C. Return on Equity Recommendation

8

9 Q. WHAT IS YOUR RECOMMENDATION FOR THE RETURN ON  
10 EQUITY AND OVERALL RATE OF RETURN THE COMMISSION  
11 SHOULD USE IN THIS PROCEEDING?

12 A. As I mentioned earlier, the results from my DCF Analysis resulted in an investor  
13 return requirement range of 9.0% to 9.50% for the comparable group and 8.75%  
14 to 9.25% for SCANA.

15

16 The comparable earnings method produces a return on equity in the range of 9.5%  
17 to 10.5%. My specific recommendation in this case is for the Commission to  
18 grant SCANA a return on equity of 9.5%. This 9.5% ROE is in the high-end of  
19 the range of the DCF results for the comparable group and is in the low-end of the  
20 range for the comparable earnings analysis.

21

22 It is important for the Commission to remember that, over the past year, we have  
23 seen a tremendous "bounce back" in the stock market. I believe that, since the  
24 market correction of last year, investor attitudes have changed to appreciate the  
25 solid nature of utility stocks. This appreciation for utility stocks can be seen in  
26 recent stock prices that have moved decidedly upward thereby driving utility  
27 dividend yields downward and, correspondingly, driving investor return  
28 requirements downward as well. I believe it is critical that the Commission take

1           into account the surge in stock prices in 2009 and 2010 and recognize the lower  
2           investor return requirements.

3       **Q.   HOW DOES YOUR RECOMMENDED RETURN ON EQUITY**  
4       **COMPARE TO RETURNS THAT INVESTORS ARE NOW EXPECTING**  
5       **IN THE MARKETPLACE?**

6       A.   SCE&G's own internal documents show that my recommended return on equity  
7           is, if anything, on the high end of what the Company's consultants assumed when  
8           preparing the utility's most recent actuarial assumptions for its employee  
9           retirement fund. In response to a SCEUC interrogatory, SCE&G provided a 2007  
10          study prepared by Rogerscasey, which according to its website is a "diverse,  
11          global investment solutions firm" with \$265 billion in assets under management,  
12          that showed that Rogerscasey projected U.S. equities to provide only a 9.5%  
13          return on equity. Given that SCANA Corp is a utility with less risk than the  
14          overall broad stock market, my recommended return on equity appears to be  
15          overly generous to SCE&G. A copy of the page from the Rogerscasey study can  
16          be seen in Appendix B.

17      **Q.   PLEASE EXPLAIN HOW THE LOWER RETURN ON EQUITIES AS**  
18      **CITED BY SCANA'S INVESTMENT CONSULTING FIRM IMPACTS**  
19      **THE REVENUE REQUIREMENT TO BE SET IN THIS CASE.**

20      A.   One of the accounting adjustments requested by SCE&G in this proceeding is an  
21          increase in rates by roughly \$0.5 million to pay for higher pension expense.  
22          SCE&G used the Rogerscasey estimate to help calculate a pension expense that it  
23          needed to accrue in the future. From this value, SCE&G concluded that it needed  
24          an extra \$0.5 million to fund its employee pension. If the Rogerscasey estimate of  
25          market returns was equal to Mr. Hevert's estimated market return on equity,  
26          SCE&G would, most likely, not need the \$0.5 million increase to fund its pension  
27          fund.

28

1 Without a doubt, SCE&G's own document conflicts with the testimony of its rate  
2 of return witness, Mr. Hevert. The Company is herein asking for higher rates to  
3 support an unrealistic return on equity for its own capital investments while, at the  
4 same time, asking ratepayers for even more money to fund a pension fund that  
5 even the Company does not expect to earn anywhere near the rate of return it is  
6 seeking in this case.

7  
8 Given the very clear conflict between SCE&G's positions in this case, my  
9 recommendation to the Commission is that it disallow the Company's request for  
10 an extra \$0.5 million in pension expenses.

11  
12 **D. Capital Structure and Overall Rate of Return**

13  
14 **Q. MR. O'DONNELL, HAVE YOU REVIEWED THE CAPITAL**  
15 **STRUCTURE REQUESTED BY THE COMPANY IN THIS**  
16 **PROCEEDING?**

17 **A. Yes, I have.**

18 **Q. WHAT IS A CAPITAL STRUCTURE AND HOW WILL IT IMPACT THE**  
19 **REVENUES THAT SCE&G OR ANY OTHER UTILITY IS SEEKING IN**  
20 **A RATE CASE?**

21 **A. A capital structure represents the way in which a company finances its**  
22 **investments.**

23  
24 For simplicity purposes, there are basically three financing methods. The first  
25 method is to finance an investment with common equity, which essentially  
26 represents ownership in a company and its investments. Common equity  
27 payments, which take the form of dividend, to stockholders that are not tax  
28 deductible which makes this form of financing about 40% more expensive than  
29 debt placements. The second form of corporate financing is preferred stock,

1 which is used to a much smaller degree in capital structures. Dividend payments  
2 associated with preferred stock are not tax deductible. Long-term debt is the other  
3 major form of financing used in the corporate world. This form of financing  
4 represents a liability on the company's books that must be repaid prior to any  
5 common stock holder or preferred stockholder receiving a return on their  
6 investment. Long-term debt is also tax deductible thereby making it less  
7 expensive than common equity.  
8

9 A utility's total return is developed by applying its capital structure, which is  
10 represented by percent (%) ratios of the various forms of capital financing relative  
11 to the total financing on the company's books, by the cost rates associated with  
12 each form of capital. When these percent (%) ratios are applied to various cost  
13 rates, a total after-tax rate of return is developed. Since the utility must pay  
14 dividends associated with common equity and preferred stock with after-tax  
15 funds, the after-tax returns are then converted to a pre-tax return by grossing up  
16 the common equity and preferred stock returns for taxes. The final pre-tax return  
17 is then multiplied by the Company's rate base in order to develop the amount of  
18 money that ratepayers must pay to the utility for its return on investment and tax  
19 payments associated with that investment.  
20

21 From the above discussion, it is clear to see that costs to consumers rise when the  
22 utility finances its rate base investment with common equity and preferred stock  
23 versus long-term debt. However, long-term debt, which is first in-line for  
24 repayment, is more risky to the utility than is common equity. As a result,  
25 regulators and the utility must balance off the needs of consumers, which desire  
26 low rates derived from the use of long-term debt, versus the need of the utility to  
27 minimize the use of the more risky long-term debt.  
28

1   **Q.   MR. O'DONNELL, WHAT CAPITAL STRUCTURE IS SCE&G SEEKING**  
2       **IN THIS CASE?**

3  
4       Common Equity               52.96%  
5       Long-term Debt              47.04%  
6       Total Capitalization        100.00%

7   **Q.   DO YOU BELIEVE THAT THIS CAPITAL STRUCTURE IS**  
8       **APPROPRIATE FOR RATEMAKING PURPOSES?**

9   A.   No, I do not. In this case, SCE&G is seeking a hypothetical capital structure that  
10       manipulates regulation to force consumers to pay a higher return than can be  
11       justified to support the Company's rate base investments.

12   **Q.   PLEASE DESCRIBE HOW SCANA IS MANIPULATING REGULATION**  
13       **TO CREATE EXCESSIVE RETURNS FOR ITS STOCKHOLDERS IN**  
14       **THIS CASE ?**

15   A.   Public corporations, such as SCANA Corp., can write off interest payments  
16       associated with debt placements. Corporations are not, however, allowed to  
17       deduct common stock dividend payments for tax purposes. All dividend payments  
18       must be made with after-tax funds, which are obviously more expensive than pre-  
19       tax funds. Since the regulatory process allows utilities to recover all expenses,  
20       including taxes, rates must be set so that the utility pays all its taxes and has  
21       enough left over to pay its common stock dividend. In the current case, SCANA  
22       has issued debt, taking the interest write-off at the corporate level, and then  
23       invested the debt proceeds into SCE&G and called it common equity. In the  
24       process of this rate case, SCE&G is asking this Commission to set rates to support  
25       paying taxes on common equity that is, in reality, debt on the parent's books that  
26       does not need to be grossed up for taxes. In utility regulation, this process of  
27       taking debt proceeds at the holding company level to invest as equity in a utility  
28       subsidiary is known as "double-leverage" in that it forces consumers to essentially  
29       pay twice for the cost of debt.

1  
2 For an analytical examination of how a utility grosses up its requested return for  
3 tax purposes, I refer the Commission to the testimony of Mr. James Swan, IV,  
4 Exhibit JES\_3, p. 1 to see that, without taxes, the Company increase in this case is  
5 \$121.4 million.. However, to net out this amount of \$121 million, the Company  
6 must ask the Commission for another \$76 million to pay the extra taxes. When  
7 combined, the total increase is \$197 million.  
8

9 For a more basic understanding, consider the following example. Suppose that  
10 SCE&G needed to finance a \$100 million plant investment. It could choose debt  
11 and, at today's rates, would pay roughly \$5 million per year in interest costs. This  
12 \$5 million would flow to consumers in the form of higher rates to pay the \$5  
13 million in financing costs. As an alternative, SCANA could issue the debt, pay \$5  
14 million per year in interest costs and then infuse the \$100 million into SCE&G  
15 and call it common equity. In this latter case, SCE&G would receive \$10.7  
16 million per year in equity costs that, on a pre-tax basis, would equate to roughly  
17 \$17 million. Hence, if SCANA were to take the \$100 million and infuse it into  
18 SCE&G as equity, it would charge ratepayers \$17 million at the SCE&G level to  
19 pay for a \$5 million interest payment expense at the SCANA level. This extra \$12  
20 million per year is the cost that ratepayers would pay for SCANA's use of double-  
21 leveraging its capital structure.  
22

23 **Q. DO YOU HAVE ANY EVIDENCE THAT SCANA CORP. IS DOUBLE-**  
24 **LEVERAGING ITS REGULATED ASSET INVESTMENTS?**

25 **A.** Yes. Table 1 below sets out the total common equity that SCANA Corp. had on  
26 its books as of September 30, 2009, as well as the per books common equity  
27 component for SCE&G, as well as Public Service of North Carolina, which is also  
28 a wholly-owned subsidiary of SCANA Corp.  
29

Table 1: Per Books Common Equity Positions

Component amounts as of Sept. 30, 2009	Per Books Amounts (000's)
SCE&G Common Equity [1]	\$3,141,459
PSNC Common Equity [2]	<u>\$619,412</u>
Total Capitalization	\$3,760,871
SCANA Common Equity [1]	\$3,479,229
Double-Leveraged Common Equity	\$281,642

Sources: 1. SCE&G request to ORS Audit Request No. 1-4  
2. N.C.U.C. Form G.S.-1, Page 3 of 4

As can be seen in the table above, the total common equity investment into just two of SCANA's wholly-owned subsidiaries, SCE&G and PSNC, is approximately \$282 million GREATER than the total per books common equity of the consolidated SCANA Corp. When other subsidiaries, such as SCANA Communications and SCANA Energy, are added to the SCE&G and PSNC totals, the evidence of the existence of double-leverage becomes even more pronounced.

**Q. CAN YOU CALCULATE THE INCREASE IN REVENUE REQUIREMENTS IN THIS CASE THAT SCE&G IS REQUESTING THE COMMISSION TO APPROVE TO SUPPORT ITS DOUBLE-LEVERAGED CAPITAL STRUCTURE?**

**A.** Yes. In Exhibit KWO-5, I have provided the calculations to show that the cost of double-leveraging is an unwarranted increase of \$51.3 million to consumers in this case. Put in another form, roughly 25% of the rate increase in this case is due to SCE&G using the regulatory process to generate excessive returns for executives and stockholders at the expense of captive ratepayers.

**Q. MR. O'DONNELL, WHAT CAPITAL STRUCTURE DO YOU RECOMMEND FOR USE IN THIS PROCEEDING?**

1 A. In order to recognize the way that SCANA Corp. finances its utility rate base  
2 investments, I recommend that the Commission employ the SCANA Corp. capital  
3 structure as of September 30, 2009. That capital structure and associated cost rates  
4 are as follows:

5  
6 Table 2: Recommended Capital Structure  
7

Component	Ratio (%)	Cost Rate (%)
Long-Term Debt	55.35%	6.13%
Common Equity	<u>44.65%</u>	
Total Capitalization	100.00%	

8  
9

10 In my opinion, the SCANA Corp. capital structure that I recommend in this  
11 proceeding is more transparent to investors, reflects the manner in which the  
12 utility actually finances its rate base investment, and prevents ratepayers from  
13 paying income taxes that are not in reality paid by SCE&G in the provision of  
14 electric service in South Carolina.

15

16 **E. Overall Rate of Return**

17

18 **Q. WHAT IS YOUR OVERALL RECOMMENDED RATE OF RETURN IN**  
19 **THIS PROCEEDING?**

20 A. I recommend to the Commission that it set rates to allow SCE&G to earn a total  
21 return of 7.63%. The details of my recommended rate of return can be found in  
22 Exhibit KWO-6.

23

24 My recommendations in this case will result in lower rates for all South Carolina  
25 ratepayers while, at the same time, are fair to Company stockholders who



1           that double-digit returns on equity are simply unrealistic in today's financial  
2           marketplace.

3  
4           **F.     Review of Testimony of Company Witness Hevert**

5  
6   **Q.     WHAT METHODS DID MR. HEVERT USE IN HIS ANALYSIS OF THE**  
7           **COST OF EQUITY FOR SCE&G?**

8   **A.     Mr. Hevert used the DCF model, the Capital Asset Pricing Model (CAPM), which**  
9           **is essentially a risk premium model, and another risk premium model is his return**  
10          **on equity analysis of SCE&G.**

11   **Q.     WHAT ARE THE PRIMARY DIFFERENCES BETWEEN YOUR**  
12          **APPLICATION OF THE DCF MODEL AND MR. HEVERT'S**  
13          **APPLICATION OF THE DCF?**

14   **A.     One difference between Mr. Hevert and me is that Mr. Hevert uses forecasted**  
15          **earnings growth estimates as the primary source of dividend growth in the DCF**  
16          **model, whereas I use a more global approach that examines historical and**  
17          **forecasted growth in earnings, dividends, and book value. In my opinion,**  
18          **investors are competent enough to understand that dividend growth, which is the**  
19          **basis for the DCF model, originates from earnings growth and book value growth.**  
20          **Hence, it is only logical to examine all of these factors in the determination of the**  
21          **proper growth rate to use in the DCF model. By doing so, it is logical to**  
22          **understand that such a range will include high growth rates and low growth rates.**  
23          **Investors use all of this information in determining the price at which they are**  
24          **willing to pay for the stock and, hence, the underlying investor return requirement**  
25          **using the DCF model.**

26  
27          By focusing only on forecasted earnings growth, Mr. Hevert has skewed his  
28          results upward. A quick examination of the earnings, dividends, and book value  
29          historical and forecasted growth rates will reveal that Mr. Hevert advocates only

1 the highest growth rates in the DCF model thereby producing unrealistically high  
2 return on equity estimates.

3  
4 Modern finance is predicated on the principle that investors use all available  
5 information in making investment decisions. Mr. Hevert, on the other hand, urges  
6 the Commission to ignore dividend and book value growth in the application of  
7 the DCF model. I don't believe Mr. Hevert would, himself, ignore these other  
8 growth rates when making his own personal investment decisions. I don't believe  
9 he is being prudent in this case in telling the Commission to ignore dividend and  
10 book value growth.

11 **Q. MR. O'DONNELL, WHY DO YOU NOT USE THE CAPM OR A RISK**  
12 **PREMIUM MODEL IN DETERMINING RETURNS ON EQUITY IN**  
13 **UTILITY REGULATORY PROCEEDINGS?**

14 **A.** The CAPM is, essentially, a risk premium model that compares market returns to  
15 fixed-income yields to arrive at a forecasted return on equity. The underlying  
16 assumption of the CAPM or any other risk premium model is that calculated risk  
17 premiums stay relatively constant over time. Unlike Mr. Hevert, I have found  
18 such assumptions to be unrealistic.

19  
20 Current economic conditions are vastly different from conditions that have existed  
21 in the marketplace since 1926. For example, from the end of WWII until the mid-  
22 1990s, the United States economy was generally seen as the dominant market in  
23 the world. Today, however, China, Japan, and India are all making strong  
24 economic strides that are threatening our dominance in world markets. A risk  
25 premium model, by definition, ignores the changing world markets.

26  
27 Furthermore, the CAPM uses a beta variable to measure the risk of the company  
28 studied relative to the market. In my view, this beta is highly subjective and can  
29 only be used with the utmost care. Since the beta is calculated with historical

1 returns relative to market returns, it is very possible, and in fact quite likely, that  
2 sudden changes in a company's stock price will not be captured in the beta  
3 thereby producing meaningless answers. If, for example, the beta used in the  
4 analysis were calculated over an extended time period, such as how Value Line  
5 calculates its beta, and then a company suddenly encountered severe financial  
6 problems, the CAPM would produce meaningless results, as the calculated return  
7 on equity would be grossly low.

8  
9 An example of the problem with beta can be seen in the situation involving  
10 Countrywide Financial, which was the world's largest independent residential  
11 mortgage lender and service company. Countrywide has symbolically become the  
12 poster child for the credit meltdown that occurred in the marketplace setting off  
13 recession worries for the entire country. The August 24, 2007 edition of Value  
14 Line states that Countrywide's stock price has fallen 54% since its May, 2007  
15 report. However, even with this price decline, the calculated beta for Countrywide  
16 was just 1.15, meaning that Countrywide was only 15% more risky than the  
17 overall stock market. Given the precipitous drop of Countrywide and past  
18 concerns of a wide credit meltdown resulting in thousands of homeowners losing  
19 their houses at that point in time, it is hard to believe that Countrywide's beta was  
20 just 1.15, Applying this beta in a CAPM would have provided an absurd result.

21  
22 Another inherent problem with the CAPM is the expected return on the market to  
23 use in the CAPM formula. In his application of the CAPM, Mr. Hevert used  
24 11.79% as found in Exhibit RBH\_2, p. 3 of 7. However, as noted above,  
25 SCE&G's own consultants who manage its retirement fund forecast the U.S.  
26 equity market to return only 9.5% in the future. Clearly, Mr. Hevert is at odds  
27 with his client's own investment consultants. The loser in this debate may be  
28 SCE&G's electric consumers if rates are set to allow for an unrealistically high  
29 ROE.

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Lastly, I urge the Commission to consider how they, individually, look at investments and apply the same reasoning to discerning the validity of the DCF and CAPM models. When a person is contemplating making an investment, that person will consider both the short-term and long-term returns in making that investment. With the DCF, the short-term return is represented by the current dividend yield and the long-term growth return is represented in the growth of expected dividends. As a result, the DCF is a practical "real-life" model that is used by investors throughout the world each and every day. The CAPM, on the other hand, is a pure academic model that depends on an assumed risk premium and risk-free rate to arrive at a return on equity estimation. Investors simply do not use such an academic model in the daily "real life" decisions.

**Q. HOW DOES THE DCF CAPTURE SUCH A SUDDEN CHANGE IN THE MARKET PRICE OF A STOCK?**

A. Since the DCF can incorporate daily fluctuations in stock prices via the dividend yield, it can capture sudden price movements and ongoing risk changes of a company. Since the CAPM relies on extensive historical data on which to calculate the beta, it simply cannot capture sudden risk movements.

**Q. DO YOU HAVE ANY BASELINE COMPARISON OF MR. HEVERT'S COST OF EQUITY RECOMMENDATION IN THIS CASE?**

A. On a more logical, common sense basis, I ask the Commission to contemplate the following question: do you expect your personal portfolios to earn close to 12% in the coming decade? If the answer to that question is no, the conclusion in this case is that SCE&G's requested return on equity is grossly excessive.

## **G. Review of Testimony of Company Witness Cannell**

**Q. MR. O'DONNELL, HAVE YOU REVIEWED THE TESTIMONY OF JULIE CANNEL IN THIS PROCEEDING?**

A. Yes, I have.

1

2 **Q. WHAT IS THE PURPOSE OF MS. CANNELL'S TESTIMONY IN THIS**  
3 **PROCEEDING?**

4 A. In her prefiled testimony, Ms. Cannell states that the purpose of her testimony  
5 was to provide comments on the investors' perspective of risk and investor  
6 expectations of the South Carolina regulatory climate. When one reads through  
7 Ms. Cannell's testimony, it is clear that Ms. Cannell is essentially testifying in  
8 support of the Company's requested return on equity and its requested capital  
9 structure, without any independent analysis of these issues and, thus, without any  
10 substantive contribution to the case.

11 **Q. DO YOU AGREE WITH MS. CANNELL'S CONCLUSIONS IN THIS**  
12 **CASE?**

13 A. No. I believe that Ms. Cannell has misunderstood the purpose of utility regulation.  
14 Ms. Cannell's testimony implies that SCE&G needs a certain return on equity and  
15 capital structure in order to ensure the utility will have a credit rating that she  
16 deems suitable for the Company's credit needs.

17

18 If this Commission, or any other utility commission in the United States, were to  
19 ever begin to set returns on equity based on credit standards, it would essentially  
20 be ceding its regulatory control to rating agencies which often have substantial  
21 conflicts of interest. Furthermore, setting a return on equity to achieve a  
22 predetermined credit rating would, in my view, send a signal to utility executives  
23 that it is acceptable to take risks since the Commission is targeting a credit rating  
24 as opposed to granting the utility an OPPORTUNITY to earn its allowed rate of  
25 return.

26

27 Furthermore, I believe the Commission should examine the concept of exactly  
28 what Ms. Cannell is stating in her testimony. Ms. Cannell states that a 11.6%  
29 return on equity is needed in order for

1  
2 ...a continuation of the constructive regulatory trend perceived to  
3 be underway in South Carolina, help maintain the Company's  
4 financial health, and assist in maintaining access to the debt and  
5 equity capital markets. Cannell prefiled direct testimony at Page  
6 35, Lines 20-22.  
7

8 Ms. Cannell's statement above is one-sided as she fails to discuss the impact that  
9 the unnecessarily high return on equity sought in this case will negatively impact  
10 captive consumers of SCE&G. As stated previously, the cost of equity, on a pre-  
11 tax basis, is more than twice the cost of debt. If consumers in South Carolina are  
12 required to pay unnecessarily high rates, the drag on the State's economy will be  
13 substantial and, ultimately, result in lower earnings for SCANA Corp. itself.

14 **Q. DO YOU AGREE WITH MS. CANNELL'S STATEMENT THAT A**  
15 **HIGHER ROE WOULD BE POSITIVE FOR THE COMPANY'S CREDIT**  
16 **RATINGS AND WILL "EVENTUALLY" REFLECT IN CUSTOMER**  
17 **RATES?**

18 **A.** I agree that a high ROE will be a positive for the Company's credit ratings, but I  
19 disagree about the impact that the higher ROE will have on customer rates. The  
20 impact will be immediate and not "eventual". The "eventual" offset referred to by  
21 Ms. Cannell would take the form of potentially lower interest rates that may take  
22 several years to become a reality. To be clear, the lower interest rates envisioned  
23 by Ms. Cannell are hypothetical and prospective.

24 **Q. PLEASE EXPLAIN WHY THE LOWER INTEREST RATES FORECAST**  
25 **BY MS. CANNELL ARE HYPOTHETICAL AND PROSPECTIVE.**

26 **A.** The return on equity granted by the Commission is only one item examined by  
27 credit analysts of the major investment houses. These analysts look at a variety of  
28 issues. Even more important than what state regulators grant SCE&G in this case  
29 is actually what the Company earns on its books. The good credit that Ms.  
30 Cannell alludes to will be totally destroyed if the Company mismanages its  
31 operations and, in turn, SCANA reports poor earnings.

1  
2 The lower interest rates are prospective in that the lower rates would apply only to  
3 debt issued in the future and not what has already been issued to date. The interest  
4 rates on past issues have already been established. The lower rates cited by Ms.  
5 Cannell will do nothing to help past debt issuances but can only help with future  
6 debt issuances, the amount of which is totally unknown at this point.  
7

8 One fact that is indisputable is that consumers will be forced to pay higher electric  
9 rates than necessary at the present time to support only the hope that they may pay  
10 lower interest rates in the future as a tradeoff for the higher costs associated with  
11 the unjustifiable return on equity requested in this rate case.

12 **Q. CAN YOU PROVIDE A NUMERICAL EXAMPLE TO SUPPORT YOUR**  
13 **CLAIM THAT CONSUMERS SHOULD NOT PAY FOR AN EXCESSIVE**  
14 **RETURN ON EQUITY TO JUSTIFY LOWER DEBT COSTS?**

15 A. In the current case, the Company's cost of debt is 6.14%, its requested return on  
16 equity is 11.6%, its equity ratio is 52.96%, and its rate base is about \$4.8 billion.  
17 Including income tax effects, for every 100 basis points in a higher return on  
18 equity granted to SCE&G in this case, consumers must pay approximately \$41  
19 million more each year. However, Ms. Cannell is of the belief that consumers  
20 should pay these higher rates for the opportunity of lower rates in the future.

21 **Q. HOW DO YOU RECOMMEND THE COMMISSION TREAT THE**  
22 **TESTIMONY OF MS. CANNELL?**

23 A. I do not believe that consumers should pay for the testimony of Ms. Cannell. I  
24 have no issue at all with SCE&G absorbing Ms. Cannell's fees for this case, but I  
25 do not agree with the Company seeking rate recovery of her fees. Ms. Cannell  
26 does not provide a rate of return nor a capital structure recommendation in this  
27 case. Instead, she simply supports the Company's request for higher rates to  
28 support an unnecessarily high return on equity in this case. Consumers are already  
29 paying the salary of Mr. Addison and the rate case fee of Mr. Hevert. Consumers

1 should not be burdened with the cost of Ms. Cannell when she makes no  
2 recommendations in the case. In essence, she is offering no testimony of any  
3 value to issues in this case.

4  
5 My recommendation is that the fees of Ms. Cannell be deducted from rate case  
6 expenses allowed for recovery by SCE&G in this proceeding.

### 7 III. ACCOUNTING ADJUSTMENTS

8  
9 **Q. MR. O'DONNELL, HAVE YOU EXAMINED THE VARIOUS**  
10 **ACCOUNTING ADJUSTMENTS AS PROPOSED BY THE COMPANY IN**  
11 **THIS CASE?**

12 **A.** Yes, I have.

13 **Q. DO YOU AGREE THAT SCE&G'S ADJUSTMENT REGARDING**  
14 **EMPLOYEE AND OFFICER BONUSES IS APPROPRIATE?**

15 **A.** I agree that an adjustment is needed, but I disagree with SCE&G's adjustment to  
16 eliminate only 50% of the bonuses received by employees and officers in the test  
17 year. Given the horrendous economic conditions of 2009 and the fact that  
18 thousands of South Carolinians have lost their jobs in this bad economy, it is  
19 disappointing that SCE&G chose to ask ratepayers to pay \$8 million in higher  
20 rates to support bonuses of employees and executives. To file a rate case at all  
21 during this bad economy is disturbing, but to ask for rate recovery of \$8 million in  
22 bonuses is simply excessive, to say the least.

23  
24 I have no problem at all with SCE&G paying these bonuses, but I am strongly  
25 opposed to the utility seeking rate recovery of these bonuses from consumers,  
26 many of which have lost their jobs in the past year.

27 **Q. DURING THE TEST YEAR DID SCE&G ELIMINATE ANY SIMILAR**  
28 **EXPENSES FROM RATES AS PART OF THIS RATE CASE?**

29 **A.** Yes. During the test year, SCE&G incurred over \$6 million in employee clubs.  
30 However, the utility exercised good judgement not to ask ratepayers to pay for



1           these private clubs. Likewise, the utility should not ask consumers to pay bonuses  
2           in this case.

3       **Q.   DO YOU HAVE ANY FURTHER ACCOUNTING ADJUSTMENTS THAT**  
4       **YOU RECOMMEND TO THE COMMISSION IN THIS CASE?**

5       A.   Yes. It is my understanding that the scrubbers associated with the Wateree Plant  
6           are not yet in service. If these scrubbers are not yet operational, they are not  
7           “used and useful” equipment and should, in my opinion, be excluded from rates in  
8           the current case. To be specific, my recommendation is that the Commission  
9           delay putting the \$283.4 million (Page 10 of prefiled direct testimony of  
10          Company Witness Byrne) investment in the Wateree scrubbers into rate base in  
11          the current case and, instead, put the scrubbers into rate base in SCE&G’s next  
12          rate case when the equipment is fully operational.

13      **Q.   WHY DO YOU BELIEVE THE COMMISSION SHOULD DELAY**  
14      **PUTTING THE WATEREE SCRUBBERS INTO RATE BASE IN THIS**  
15      **CASE?**

16      A.   As stated previously in this testimony, the State of South Carolina is suffering  
17           through perhaps the worst economic period since the Great Depression of the  
18           1930’s. The filing of the current rate case comes at a time when South Carolina  
19           businesses and residents are struggling to get back on their feet financially. Since  
20           the Wateree scrubbers are not yet in service, I don’t believe customers should pay  
21           higher rates for this equipment. The Company should have done a better job in  
22           planning the completion of the Wateree scrubbers so that it could have ensured  
23           the Commission that the plant was used and useful before filing its request to raise  
24           rates nearly 10% for all customer classes. Delaying the inclusion of the Wateree  
25           scrubbers in rates gives SCE&G’s ratepayers a slight break.

26      **Q.   HOW DO YOU BELIEVE THE CAPITAL MARKETS WILL REACT TO**  
27      **YOUR RECOMMENDATION TO DELAY PUTTING THE WATEREE**  
28      **SCRUBBERS INTO RATE BASE?**

1     A.     First, it is important to reaffirm that I am not recommending the Commission  
2           deny SCE&G recovery of its investment in the Wateree scrubbers. My  
3           recommendation is that the Commission delay recovery of the Wateree scrubber  
4           investments until the Company's next rate case when the economy will be  
5           healthier and the scrubber equipment will be operational and "used and useful". I  
6           believe the investment community will understand that the investment recovery  
7           has been delayed, not denied.

8  
9           Secondly, I believe that my recommendation to delay recovery of the Wateree  
10          scrubber investments should be put in perspective. The Company's total rate base  
11          investment in this case is over \$4.8 billion. My recommendation to delay recovery  
12          of the \$283.4 million Wateree scrubbers affects only 5.9% of the Company's rate  
13          base investment. Given the fact that SCE&G is already benefitting from the Base  
14          Load Review Act (BLRA) in that it is assured recovery of its much more  
15          expensive nuclear plant investments on a regular and ongoing basis, I believe the  
16          investment community will accept the slight delay in recovery of the non-nuclear  
17          Wateree plant investments without assigning any more risk to the Company.  
18          Maintaining the same risk level will prevent SCE&G from paying higher rates in  
19          the future for access to the capital markets.

20  
21                   **IV.    COST OF SERVICE STUDY AND RATE DESIGN**  
22

23     Q.     **MR. O'DONNELL, WHAT IS A COST OF SERVICE STUDY AND WHY**  
24           **IS IT RELEVANT TO A RELATIVE RISK ANALYSIS?**

25     A.     A cost of service study is the starting point for any relative risk analysis. Before  
26           any changes are made to customer class rates, the current cost of serving each  
27           customer class and the return which the Company earns on service to that class  
28           must be determined. Once this information has been determined, customer class

1 rates can be changed in order to bring the resulting class rates of return in line  
2 with the risks of serving each class.

3 **Q. HOW IS A COST-OF-SERVICE STUDY PERFORMED?**

4 A. The first step in performing a cost of service study is to determine the appropriate  
5 test year for which all revenues, expenses, and utility plant investment are based.  
6 In the case of SCE&G, the most recent test year was for the 12 months ending  
7 September 30, 2009.

8  
9 The next step in performing a cost-of-service study is to ascertain the proper level  
10 of revenues and expenses to use in this analysis. It is the responsibility of the  
11 analyst to ascertain that the revenues and expenses used in the analysis are  
12 representative of what the utility can expect on an ongoing basis. Since revenues  
13 typically do not vary a great deal from year-to-year, little adjustments are made in  
14 this area. Expenses, on the other hand, can vary considerably so careful  
15 consideration must be made with each expense.

16  
17 Once the revenues and expenses have been adjusted so that they are representative  
18 of what the utility reasonably achieved in the test year, the analyst then allocates  
19 these revenues and expenses to each of the customer classes. Allocating revenues  
20 is a relatively straightforward task since all major utilities, such as SCE&G,  
21 normally retain detailed utility revenue accounts for each customer class.  
22 Allocating expenses is, however, more difficult because all the expenses are  
23 commonly incurred expenses for all customers of the electric distribution system.  
24 To allocate these expenses, the analyst must use the allocation factors that are  
25 based on factors such as annual usage, demand usage, number of customers, etc.  
26 Allocating expenses in this manner is normally called "functionalization" of  
27 expenses as the process involves arranging the expenses according to major  
28 electric utility functions, such as generation, transmission, and distribution.

1 The allocation of operating expense items requires careful consideration as to how  
2 these expenses and investments are incurred and utilized and how best to spread  
3 these costs. It is very important that the analyst allocate the given expense by the  
4 way such cost is incurred or in the manner in which these expense items are  
5 utilized. For purposes of simplicity and example, consider the situation with  
6 postage expenses. The vast majority of postage expenses are incurred in sending  
7 monthly bills to consumers. Since each consumer gets a bill in the mail, it makes  
8 sense to allocate postage expenses by the number of customers in each rate class.  
9 Thus for postage expenses, residential customers would bear the largest portion of  
10 this expense since that class has the largest number of individual customers.

11  
12 Operating expenses can be classified into five major groups: production,  
13 transmission, distribution, sales, and administrative and general (A&G) expenses.  
14 The method of allocation for each of these five groups will vary as to the way in  
15 which these expenses are incurred by the electric utility.

16  
17 Once the revenues and expenses have been determined by customer class, an  
18 income statement is essentially created for each customer class. From this income  
19 statement, income taxes can be calculated and then the net income for each  
20 customer class is determined.

21  
22 The next step in the cost-of-service study is to allocate the utility's net plant  
23 investment, which is defined as gross plant less depreciation, in a cost-causation  
24 manner similar to how the analyst allocated expenses. As was the case with  
25 expenses, net plant investment, otherwise known as the rate base, is allocated in  
26 the manner in which the utility incurs the cost. There are three major types of  
27 utility plant investment that require allocation: generation, transmission, and  
28 distribution. Of these types of investment, generation investment is generally the

1 largest investment. As the largest investment, allocation of generation is critically  
2 important in the calculation of the cost of service to each customer class.

3  
4 The last step in the cost-of-service study is to divide the net income for each  
5 customer class by the rate base for each class to derive the rate of return earned on  
6 service for each customer class. The resulting percentage (%) rate of return for  
7 each customer class provides the analyst with a gauge of the profitability of  
8 service to each customer class.

9 **Q. SHOULD AN ANALYST LOOK AT FACTORS OTHER THAN**  
10 **CUSTOMER CLASS RATES OF RETURN WHEN EXAMINING HOW**  
11 **TO ADJUST RATES?**

12 A. Yes. The analyst should also consider how the particular rate increase may impact  
13 the service territory of the utility and the long-term impact of the rate change. For  
14 example, a rate increase to a manufacturing customer on the verge of financial  
15 collapse may well be the last straw that pushes the employer out of the state or,  
16 worse, totally out of business. When that manufacturer closes its door, the load of  
17 that customer is probably gone forever meaning that rates for all other customers  
18 must concurrently increase to keep the utility whole.

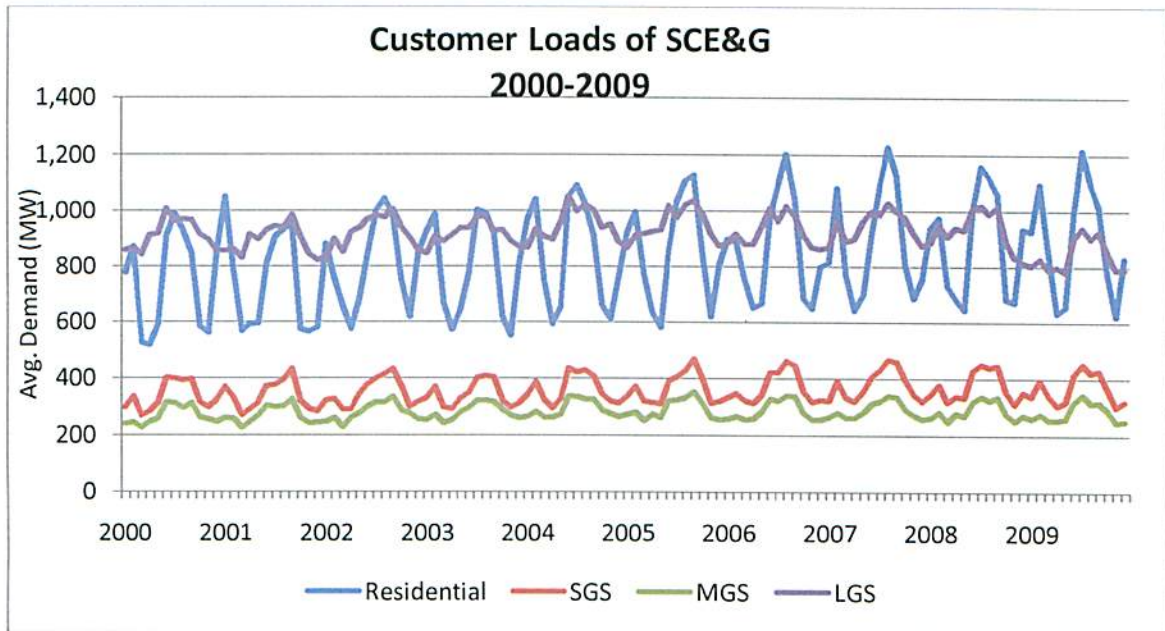
19 **Q. PLEASE EXPLAIN WHY RATES FOR OTHER CLASSES MUST GO UP**  
20 **WHEN AN INDUSTRIAL CUSTOMER CLOSES ITS DOORS.**

21 A. According to the testimony of SCE&G Witness Swan, SCE&G needs total  
22 revenues of \$2.25 billion to earn its requested rate of return of 9.03%. If an  
23 industrial customer closes its facility in South Carolina, remaining customers will  
24 need to pick up the revenue difference, less the incremental cost of power  
25 required to serve that industrial customer.

26 **Q. HOW HAS SCE&G'S LOAD CHANGED OVER THE PAST DECADE?**

27 A. SCE&G's load has continued to grow over the past ten years, but its customer  
28 mix has shifted. As can be seen in the figure below, SCE&G's residential and  
29 commercial load has grown, but its industrial load has shrunk.

Figure 1: SCE&G's Historical Customer Loads



**Q. HAVE YOU EXAMINED THE COST-OF-SERVICE STUDY FILED BY SCE&G IN THIS RATE CASE?**

**A.** Yes, I did. I analyzed the coincident peak cost-of-service study filed by Mr. John Hendricks as part of his testimony in this proceeding.

**Q. WHAT IS A "COINCIDENT PEAK" COST-OF-SERVICE STUDY?**

**A.** As stated above, the most critical part of a cost-of-service study for an electric utility is the method in which generation investment is allocated. This one allocation, more so than any other, will have the greatest influence on the resulting customer class rates of return. Since SCE&G is a summer peaking utility, Mr. Hendricks appropriately allocated the Company's generation investment to all customer classes by a ratio of each class's peak demand relative to the total peak demand of the entire SCE&G's peak demand.

1   **Q.   DO YOU AGREE WITH ALLOCATING GENERATION INVESTMENT**  
2       **BY THE COINCIDENT PEAK?**

3   A.   Yes, since SCE&G builds generating plant to meet the peak demand on its  
4       system, it make sense to allocate generation investment by the coincident peak  
5       ratio.

6   **Q.   DOES THE COINCIDENT PEAK METHOD REFLECT THE MANNER**  
7       **IN WHICH SCE&G'S CUSTOMERS USE ELECTRICITY?**

8   A.   Yes. SCE&G has three major customer classes: residential, commercial, and  
9       industrial. Of these three classes, the residential class is the most temperature-  
10      sensitive and time-sensitive class. Put simply, when the temperature rises outside  
11      the home, residential consumers respond by running their air conditioners more  
12      frequently. The time at which residential consumers use the most electricity is,  
13      typically, the late afternoon hours of a hot summer day when workers come home  
14      from work. To accommodate the need for electricity, SCE&G must ramp up its  
15      more expensive generating plants to meet this summer peak demand.

16

17      Industrial consumers, on the other hand, keep their energy consumption relatively  
18      level as these customers are much less sensitive to temperature fluctuations than  
19      are residential consumers. Furthermore, it is often very costly for a large  
20      manufacturer to ramp up and down its manufacturing operations due to the  
21      stresses that such variations place on manufacturing equipment.

22

23      The fluctuation in customer loads can be seen in Figure 1 on the previous page  
24      where customer loads for the residential class vary much more so than loads for  
25      the large general service customers.

26

27      In the current case, the rates proposed by SCE&G are based upon the coincident  
28      peak (CP) cost allocation methodology that does reflect the fact that the  
29      generation plant constructed by the Company is built to meet the Company's peak

1 demand. For the reasons set forth above, SCE&G's use of the coincident peak  
2 allocation methodology is very appropriate for use in the Company's cost of  
3 service study in this proceeding.

4 **Q. PLEASE LIST THE RATE INCREASES SOUGHT BY SCE&G IN THIS**  
5 **CASE.**

6 **A.** SCE&G is requesting an overall rate of return in this proceeding of 9.03%, which  
7 I maintain is grossly excessive. To achieve its requested rate of return, SCE&G  
8 has requested the following rate increases by customer class.

9

10 Table 3: SCE&G Requested Customer Class Rate Increases

11

Rate Class	Customer Class Increase
------------	-------------------------------

Residential	9.69%
Small Gen. Svc.	9.53%
Med. Gen. Svc.	9.24%
Large Gen. Svc.	9.19%
Lighting	11.03%

12

13 **Q. WHAT WILL BE THE IMPACT OF THIS RATE INCREASE ON THE**  
14 **COMPANY'S CONSUMERS?**

15 **A.** Without a doubt, this rate increase could not have come at a worse time for South  
16 Carolinians. Manufacturers that are still in business will be forced to consider  
17 their ongoing operations in South Carolina and may, very well, close their  
18 manufacturing operations and move them to other parts of the country, or even  
19 worse, out of the country entirely.

20

21 Residential consumers may not have the option of leaving the SCE&G territory,  
22 but they can cut back on their consumption. As we have seen in the public



1       hearings of this rate case to-date, the general public is upset with this rate case. It  
2       is highly likely that residential consumers will cut their power usage as a result of  
3       this rate case.

4  
5       The effect of lower industrial and residential usage as a result of the higher rates  
6       requested in this rate case may actually result in lower revenues than expected by  
7       the Company.

8       **Q. HAS SCE&G CONSIDERED HOW ITS PROPOSED RATE INCREASE**  
9       **WILL IMPACT ELECTRICITY SALES TO INDUSTRIAL**  
10       **CONSUMERS?**

11      A. No. SCE&G responded to a SCEUC interrogatory on this matter and stated that it  
12      “had not done any such sensitivity studies.” Given that the South Carolina  
13      manufacturing consumers are trying to desperately survive in the current  
14      economy, common sense dictates that its utility supplier would have performed  
15      such a study before requesting the right to substantially increase rates to this very  
16      vulnerable, yet very valuable, group of customers.

17      **Q. HOW DO SCE&G’S INDUSTRIAL RATES COMPARE TO OTHER**  
18      **SOUTH CAROLINA INVESTOR-OWNED UTILITIES?**

19      A. According to information obtained from the United States Department of Energy,  
20      Energy Information Administration, in 2008, which is the latest period for which  
21      data is available, Duke Energy had an average cost of energy for industrial  
22      consumers of 4.56 cents per kWh, Progress Energy had an average cost of 6.12  
23      cents per kWh, and SCE&G had an average industrial cost of 6.34 cents per kWh.  
24      Likewise, SCE&G’s residential rates are higher than the corresponding rates for  
25      Duke and Progress.

26  
27      In the recently completed Duke Energy rate case in South Carolina, the Duke  
28      industrial rates stayed flat, but costs fell after the utility gave consumers credit for  
29      past demand side management (DSM) overpayments. Progress Energy has not

1 had a rate case in close to 20 years. In the current case, SCE&G is seeking to  
2 increase industrial rates by over 9%. The gulf that currently exists in rates  
3 between SCE&G and Duke and Progress Energy will only increase in the future.  
4 This difference in rates will serve to only force manufacturers to seek other  
5 locations to locate their businesses and accompanying jobs.

6 **Q. PLEASE EXPLAIN THE ROLE OF MANUFACTURING IN THE SOUTH**  
7 **CAROLINA ECONOMY.**

8 A. Although manufacturing activity has declined in recent years, manufacturing is  
9 still one of the primary economic engines for South Carolina. In fact, according to  
10 the Dec. 9, 2009 edition of the *Columbia Regional Business Report*,  
11 manufacturing contributes the following to the South Carolina economy:

- 12
- 13 • manufacturing employs 15% of all South Carolina workers;
- 14 • manufacturing pays an average wage in South Carolina of \$46,192, which
- 15 is 27% above the state wide average wage rate;
- 16 • manufacturers pay 13% of all property taxes in the state; and
- 17 • total direct and indirect impacts of manufacturing amount to \$141 billion
- 18 on an annual basis.

19 Within the article, Mr. Robert M. Hitt of the South Carolina Manufacturers  
20 Alliance makes the following statement:

21

22 Manufacturing still matters in South Carolina. It will remain well  
23 into the future, but only if we recognize its value and promise and  
24 are willing to provide the competitive environment and tools  
25 necessary for manufacturers to flourish in today's fast-paced and  
26 ever-changing world.

27

28 With all that manufacturing has to offer and its critical role in our  
29 economy, it is imperative that state leaders, policymakers, media,  
30 and the public understand its benefit and the impact of our  
31 collective decision-making and perceptions on its future here.

32

1    **Q.    DO YOU HAVE A RATE DESIGN RECOMMENDATION FOR THE**  
2    **COMMISSION TO CONSIDER IN THIS CASE?**

3    A.    Yes. Based on recommendations made previously on rate of return and  
4    accounting issues, my overall recommended rate increase in this proceeding is  
5    approximately \$53.1 million. My recommendation is that the Commission adjust  
6    the Company's rate design downward to account for the rate of return and  
7    accounting adjustments I have herein recommended. To be specific, the rate  
8    design that I am recommending in this case is as follows:

9  
10                      Table 4:        SCEUC Recommended Rate Design

	SCEUC Recommended
Rate Class	Increase

Residential	2.60%
Small Gen. Svc.	2.56%
Med. Gen. Svc.	2.48%
Large Gen. Svc.	2.47%
Lighting	2.96%

11  
12                      As can be seen in the above table, my recommendations result in lower rates for  
13                      all consumers and are in the public interest.

14  
15    **V.    RECOMMENDATIONS**

16    **Q.    PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS**  
17    **PROCEEDING.**

18    A.    My recommendations in this case are as follows:

- 19  
20                      •    the current required investor return on equity for SCE&G is 9.50%;

- 1           • SCE&G's requested capital structure is inappropriate for ratemaking
- 2           purposes and will result in SCANA Corp. earning excessive profits at the
- 3           expense of consumers;
- 4           • the proper capital structure to employ in this proceeding is the SCANA
- 5           Corp. capital structure as of Sept. 30, 2009;
- 6           • the Commission should disallow the rate case expenses of Company
- 7           Witness Cannell as Ms. Cannell's testimony is unnecessary and
- 8           duplicative;
- 9           • the request of SCE&G for consumers to pay \$8.2 million in higher rates
- 10          for employee and executive bonuses should be denied;
- 11          • the inclusion of the Wateree scrubbers in the Company's rate base should
- 12          be delayed until SCE&G's next rate case;
- 13          • the Company's use of the summer CP allocation methodology in the cost-
- 14          of-service study is appropriate for ratemaking purposes;
- 15          • the rate design to employ in this case is the proportionate decrease of the
- 16          Company's requested increase in this case.

17           **Q.     DOES THIS COMPLETE YOUR TESTIMONY?**

18    A.     Yes, it does.

19

# APPENDIX A

**Kevin W. O'Donnell, CFA**  
**President**  
**Nova Energy Consultants, Inc.**  
**1350 SE Maynard Rd.**  
**Suite 101**  
**Cary, NC 27511**

**Education**

I received a B.S. degree in Civil Engineering - Construction Option from North Carolina State University in May of 1982 and a Masters of Business Administration in Finance from Florida State University in August of 1984.

**Professional Certification**

I am a Chartered Financial Analyst (CFA) and a member of the Association of Investment Management and Research.

**Work Experience**

In September of 1984, I joined the Public Staff of the North Carolina Utilities Commission as a Public Utilities Engineer in the Natural Gas Division. In December of 1984, I transferred to the Public Staff's Economic Research Division and held the position of Public Utility Financial Analyst. In September of 1991, I joined Booth & Associates, Inc., a Raleigh, North Carolina, based electrical engineering firm, as a Senior Financial Analyst. I stayed in this position until June 1994, when I accepted employment as the Director of Retail Rates for the North Carolina Electric Membership Corporation. In January 1995, I formed Nova Utility Services, Inc., an energy consulting firm. In May

of 1999, I changed the name of Nova Utility Services, Inc. to Nova Energy Consultants, Inc.

### **Testimonies**

#### **North Carolina**

I have testified before the North Carolina Utilities Commission in the following general rate case proceedings: Public Service Company of North Carolina, Inc. (Docket No. G-5, Sub 200, Sub 207, Sub 246, Sub 327, and Sub 386); Piedmont Natural Gas Company (Docket No. G-9, Sub 251 and Sub 278); General Telephone of the South (Docket No. P-19, Sub 207); North Carolina Power (Docket No. E-22, Sub 314); Piedmont Natural Gas Company (Docket No. E-7, Sub 487); Pennsylvania & Southern Gas Company (Docket No. G-3, Sub 186); and in several water company rate increase proceedings. I also submitted pre-filed testimony, and/or assisted in the settlement process, in Docket Nos. G-9, Sub 378, Sub 382, Sub 428 and Sub 461, which were general rate cases involving Piedmont Natural Gas Company; in Docket No. G-21, Sub 334, North Carolina Natural Gas' most recent general rate case; in Docket No. G-5, Sub 356, Public Service of North Carolina's 1995 general rate case; and in Docket No. G-39, Sub 0, Cardinal Extension Company's rate case. Furthermore, I testified in the 1995 fuel adjustment proceeding for Carolina Power & Light Company (Docket No. E-2, Sub 680) and submitted pre-filed testimony in Docket No. E-7, Sub 559, which was Duke Power's 1995 fuel adjustment proceeding. I also submitted pre-filed testimony and testified in Duke's 2001 fuel adjustment proceeding, which was Docket No. E-7, Sub 685.

Furthermore, I testified in Docket No. G-21, Sub 306 and 307, in which North Carolina Natural Gas Corporation petitioned the Commission to establish a natural gas expansion fund. I also submitted testimony in the Commission's 1998 study of natural gas transportation rates that was part of Docket No. G-5, Sub 386, which was the 1998 general rate case of Public Service Company of North Carolina. In September of 1999, I testified in Docket Nos. G-5, Sub 400 and G-43, which was the merger case of Public

Service Company of North Carolina and SCANA Corp. I also submitted testimony and stood cross-examination in the holding company application of NUI Corporation, a utility holding company located in New Jersey, which was NCUC Docket No. G-3, Sub 224, as well as NUI's merger application with Virginia Gas Company, which was Docket No. G-3, Sub 232. I also submitted pre-filed testimony and stood cross-examination in Docket No. G-3, Sub 235, which involved a tariff change request by NUI Corporation. I testified in another holding company application in Docket No. E-2, Sub 753; G-21, Sub 387; and P-708, Sub 5 which was the holding company application of Carolina Power & Light. In June of 2001, I submitted testimony and stood cross-examination in Docket No. E-2, Sub 778, which was CP&L's application to transfer Certificates of Public Convenience and Necessity (CPCN) from two of the Company's generating units to its non-regulated sister company, Progress Energy Ventures. In November of 2001, I testified in Duke Energy's restructuring application, which was Docket No. E-7, Sub 694. In January 2002, I presented testimony in the merger application of Duke Energy Corp. and Westcoast Energy. In April of 2003, I submitted testimony in Dockets Nos. G-9, Sub 470, Sub 430, and E-2, Sub 825, which was the merger application of Piedmont Natural Gas and North Carolina Natural Gas. In May of 2003, I submitted testimony in the general rate case of Cardinal Pipeline Company, which was Docket No. G-39, Sub 4. In July 2003, I filed testimony in Docket No. E-2, Sub 833, which was CP&L's 2003 fuel case proceeding. I prepared pre-filed testimony and stood cross-examination in the merger application of Piedmont Natural Gas and Eastern North Carolina Natural Gas. In July of 2005, I prepared pre-filed testimony in Carolina Power & Light's fuel case in North Carolina. In August of 2005 I assisted in the settlement of Piedmont's 2005 general rate case. In June, 2006, I submitted rebuttal testimony in Docket No. E-100, Sub 103, which was the investigation of integrated resource planning (IRP) in North Carolina. Also in the month of June, 2006, I submitted testimony in Docket No. G-9, Sub 519, which was the application of Piedmont Natural Gas to change its tariffs and service regulations. In August, 2006, I assisted in the settlement of the rate case of Public Service of North Carolina in Docket No. G-5, Sub 481. In December of 2006, I prepared direct testimony



and stood cross-examination in Docket No. E-7, Sub 751, which was application of Duke Power to share net revenues from certain wholesale power transactions. In January, 2007, I submitted testimony in the application of Duke Energy in Docket No. E-7, Sub 790, which was in regard to the construction of two 800 MW coal fired generation units in Rutherford County, North Carolina. In June, 2008, I filed testimony in Duke Energy's Save-A-Watt energy efficiency filing. In August, 2009, I filed testimony in support of the application of Western Carolina University for an increase in rates and charges. In October, 2009, I assisted in the settlement of Duke Energy's general rate case proceeding.

### South Carolina

In August of 2002, I submitted pre-filed testimony and stood cross-examination before the South Carolina Public Service Commission in Docket No. 2002-63-G, which was Piedmont's 2002 general rate case. In October of 2004, I submitted pre-filed testimony and stood cross-examination in the general rate case of South Carolina Electric & Gas. In March 2005, I prepared pre-filed testimony and assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In April of 2005, I prepared pre-filed testimony and assisted in the settlement of Carolina Power & Light's fuel case in South Carolina. In March 2006, I assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In November of 2007 I assisted in the settlement of the 2007 South Carolina Electric & Gas general rate case proceeding. In October, 2008, I submitted testimony in the 2008 South Carolina Electric & Gas base load review act proceeding. In November, 2009, I submitted testimony in Duke Energy's 2009 general rate case proceeding. In January, 2010, I submitted testimony and stood cross examination in SCE&G's demand side management (DSM) proceeding.

## United States Congress

In May of 1996, I testified before the U.S. House of Representatives, Committee on Commerce and Subcommittee on Energy and Power concerning competition within the electric utility industry.

I have also worked with North Carolina and South Carolina municipalities in presenting comments to the Federal Energy Regulatory Commission regarding the opening of the wholesale power markets in the Carolinas.

## **Publications**

I have also published the following articles: Municipal Aggregation: The Future is Today, *Public Utilities Fortnightly*, October 1, 1995; Small Town, Big Price Cuts, *Energy Buyers Guide*, January 1, 1997; and Worth the Wait, But Still at Risk, *Public Utilities Fortnightly*, May 1, 2000. All of these articles dealt with my firm's experience in working with small towns that purchase their power supplies in the open wholesale power markets.

# APPENDIX B

SCANA Corporation  
Expected Rate of Return  
August 28, 2007 Asset Liability Study

Investment Strategy	Target Allocation	Projected Rate of Return <sup>1</sup>	Weighted Average ROR
Cash	0.0%	4.3%	0.0%
REITs	7.0%	8.3%	0.6%
U.S. Equity	36.0%	9.5%	3.4%
Non-U.S. Developed Equity	16.0%	10.1%	1.6%
Emerging Markets Equity	6.0%	13.3%	0.8%
Core Fixed Income	26.0%	5.3%	1.4%
Non-Directional Hedge Fund of Funds	9.0%	8.3%	0.7%
	<u>100%</u>		<u>8.5%</u>

Investment Strategy	Target Allocation	Projected Rate of Return <sup>1</sup>	Weighted Average ROR
Equity	65.0%	9.9%	6.4%
Fixed Income <sup>2</sup>	<u>35.0%</u>	<u>6.1%</u>	<u>2.1%</u>
	<u>100.0%</u>		<u>8.5%</u>

<sup>1</sup> Projected Rates of Return are the average annual expected returns for Rogerscasey's 2007 Forward Looking Asset Class Assumptions.

<sup>2</sup> Non-Directional hedge fund of funds included in Fixed Income allocation.

rogerscasey

# South Carolina Electric & Gas Docket No. 2009-489-E

DCF Results																		
Company	13 Wk. Avg.			4 Wk. Avg.			Current			Value Line						Plowback		Schwab
	Dividend	Yield	Dividend	Dividend	Yield	Yield	10 Year			5 Year			Forecasted			Growth	Forecasted	
							EPS	DPS	BPS	EPS	DPS	BPS	EPS	DPS	BPS			
																		Rate
ALLETE	5.5%	5.4%	5.3%	-	-	-	14.0%	ntf	3.5%	-0.5%	1.0%	2.5%	1.3%	6.5%				
Allegheny Energy	2.9%	3.5%	3.4%	0.5%	ntf	-1.5%	-	ntf	-2.0%	5.5%	25.0%	9.0%	8.4%	6.0%				
Alliant Energy	5.1%	5.0%	4.8%	3.0%	-3.5%	1.0%	9.0%	0.5%	3.5%	7.0%	5.5%	3.5%	3.3%	5.7%				
Amer. Elec. Power	4.8%	4.9%	4.9%	-	-4.0%	0.5%	2.0%	-2.5%	5.0%	3.0%	2.5%	6.0%	4.7%	4.7%				
Ameren Corp.	5.8%	6.1%	6.0%	0.5%	-	3.5%	-1.5%	-	5.0%	1.0%	-5.5%	2.5%	3.3%	-1.5%				
Avista Corp.	4.5%	4.8%	4.6%	-2.5%	-6.0%	3.5%	4.0%	5.0%	3.0%	8.5%	11.5%	3.5%	3.6%	4.5%				
Buck Hills	5.3%	5.2%	5.0%	1.0%	3.5%	10.5%	4.0%	3.5%	5.0%	8.5%	2.5%	3.0%	2.8%	6.0%				
CH Energy Group	5.2%	5.3%	5.2%	-1.5%	-	1.5%	-	-	1.5%	3.5%	ntf	1.0%	2.2%	na				
CMS Energy Corp.	3.9%	3.9%	3.8%	-9.5%	-12.0%	-6.5%	-	-	2.5%	9.5%	17.0%	6.0%	5.4%	6.1%				
Con. Vermont Pub. Serv.	4.5%	4.5%	4.4%	5.0%	0.5%	1.5%	3.5%	1.0%	1.5%	3.0%	1.0%	6.5%	3.1%	na				
CenterPoint Energy	5.4%	5.6%	5.5%	-	-	-	1.5%	3.0%	5.5%	4.5%	3.5%	8.0%	5.0%	6.0%				
Cleo Corp.	3.8%	3.9%	3.8%	3.0%	1.5%	6.5%	0.5%	0.5%	9.0%	8.0%	6.5%	5.0%	5.3%	4.0%				
Consolid. Edison	5.3%	5.5%	5.5%	1.0%	1.0%	3.0%	1.5%	1.0%	3.5%	2.5%	1.0%	3.0%	2.8%	3.4%				
Constellation Energy	2.8%	2.8%	2.7%	4.0%	0.5%	2.0%	3.5%	16.0%	-	3.0%	-7.5%	7.0%	7.5%	10.6%				
Dominion Resources	4.8%	4.8%	4.7%	7.5%	1.5%	2.5%	5.5%	2.5%	1.5%	7.0%	5.5%	7.0%	6.8%	7.3%				
DPL Inc.	4.3%	4.5%	4.4%	4.5%	1.5%	-	10.5%	3.0%	6.5%	5.5%	4.0%	12.0%	11.7%					
DTE Energy	4.8%	4.8%	4.7%	-1.0%	-	3.5%	-2.5%	0.5%	4.0%	7.0%	3.0%	4.0%	3.4%	4.3%				
Duke Energy	5.6%	6.0%	6.0%	-	-	-	-	-	5.5%	ntf	0.5%	1.9%	3.4%	4.5%				
Edison Int'l	3.7%	3.8%	3.6%	7.0%	1.5%	6.0%	13.5%	-	14.5%	3.5%	4.0%	7.0%	7.2%	3.0%				
Empire Dist. Elec.	6.9%	7.0%	7.0%	-1.5%	-	1.5%	0.5%	-	1.0%	7.0%	1.0%	1.5%	7.9%	na				
Enbridge Corp.	4.5%	4.8%	4.7%	-	-	-	10.5%	15.0%	4.5%	1.5%	2.0%	8.0%	9.1%	0.023				
GT Plains Energy	4.4%	4.6%	4.5%	-2.0%	-1.5%	3.5%	-10.0%	-3.5%	7.0%	4.5%	-2.5%	1.5%	2.1%	6.7%				
Hamilton Elec.	6.0%	6.0%	6.0%	-1.5%	-	1.5%	-6.0%	-	1.0%	7.0%	ntf	2.0%	1.7%	5.8%				
IDACORP, Inc.	3.7%	3.6%	3.5%	-1.0%	-4.5%	3.5%	1.5%	-8.0%	3.0%	4.5%	2.5%	5.0%	3.7%	6.0%				
Integrus Energy	6.3%	6.0%	5.8%	2.5%	2.5%	7.5%	-1.5%	3.5%	10.0%	7.0%	1.0%	1.0%	2.2%	5.0%				
MGE Energy	4.3%	4.3%	4.2%	5.0%	1.0%	6.0%	6.0%	1.0%	7.0%	6.0%	0.5%	7.0%	4.2%	5.0%				
NV Energy Inc.	3.9%	3.9%	3.8%	-5.0%	-20.0%	-2.5%	-	-3.5%	-2.0%	7.5%	ntf	4.5%	4.3%	10.5%				
Northeast Utilities	3.9%	3.9%	3.8%	-	2.0%	1.0%	3.0%	8.5%	2.0%	7.0%	7.0%	4.0%	4.1%	7.6%				
Other Tail Corp.	5.3%	5.8%	5.6%	-1.0%	2.0%	7.0%	-5.5%	2.0%	6.5%	8.0%	1.5%	2.5%	11.7%					
Pepco Holdings	6.4%	6.4%	6.4%	-	-	-	-2.0%	17.5%	1.5%	0.5%	1.0%	1.5%	1.7%	6.3%				
PG&E Corp.	4.1%	4.3%	4.2%	4.5%	0.5%	1.5%	ntf	-	18.0%	6.5%	7.5%	6.5%	8.0%	8.8%				
Pinetree West Capital	5.7%	5.7%	5.6%	-	6.5%	3.5%	-1.0%	5.0%	3.0%	3.0%	1.0%	1.0%	1.8%	6.5%				
PMI Resources	4.0%	4.0%	3.9%	-4.0%	7.5%	5.0%	-11.5%	6.5%	4.0%	7.5%	ntf	1.0%	2.0%	11.7%				
Progress Energy	6.3%	6.5%	6.4%	-0.5%	2.5%	5.5%	-6.5%	2.0%	2.5%	4.5%	1.0%	2.5%	1.9%	3.8%				
Public Serv. Enterprise	4.4%	4.5%	4.5%	6.5%	1.0%	2.5%	5.5%	2.0%	7.0%	7.5%	4.0%	9.5%	9.5%	7.5%				
TECO Energy	5.0%	5.2%	5.1%	-4.0%	-4.0%	-2.0%	-5.0%	-9.0%	-6.5%	8.0%	3.0%	4.5%	4.8%	9.1%				
ULI Holdings	6.2%	6.2%	6.1%	-	-	-	-	-	-2.0%	3.0%	ntf	2.5%	1.7%	4.1%				
Unisource Energy	4.1%	5.1%	5.1%	-6.0%	-	12.0%	-1.5%	12.5%	6.5%	17.0%	10.0%	7.0%	6.3%	na				
Veolia Corp.	5.7%	5.8%	5.8%	-	-	-	2.5%	3.5%	4.0%	4.5%	2.5%	3.5%	3.0%	6.0%				
Western Energy	5.6%	5.7%	5.7%	1.5%	-6.5%	-4.0%	21.5%	-0.5%	1.0%	7.5%	3.5%	4.5%	2.3%	4.7%				
Xcel Energy Inc.	4.7%	4.8%	4.7%	-2.5%	-4.0%	-0.5%	1.0%	-4.0%	1.0%	8.5%	3.0%	4.5%	4.0%	6.1%				
Average	4.9%	5.0%	4.8%	0.4%	-1.0%	2.7%	1.7%	2.8%	3.8%	5.6%	3.8%	4.2%	6.1%					
SCANA Corp.	5.2%	5.3%	5.2%	3.0%	1.5%	4.5%	3.5%	6.5%	4.0%	3.5%	2.0%	4.5%	3.6%	5.4%				

# South Carolina Electric & Gas

## Docket No. 2009-489-E

Company	13 Wk. Avg. Dividend Yield	4 Wk. Avg. Dividend Yield	Current Week Dividend Yield	Average Growth Rate	Historical Growth Rate	Plowback Growth Rate	Fore. Growth Rate	DCF Based Only on Forecasts
ALLETE	5.5%	5.4%	5.3%	4.0%	—	1.3%	2.4%	7.7%
Allegheny Energy	2.9%	3.5%	3.4%	6.4%	-1.0%	8.4%	11.4%	14.8%
Alliant Energy	5.1%	5.0%	4.8%	3.5%	2.3%	3.3%	5.4%	10.2%
Amer. Elec. Power	4.8%	4.9%	4.9%	2.1%	0.2%	4.7%	3.8%	8.7%
Ameren Corp.	5.8%	6.1%	6.0%	0.8%	1.9%	3.3%	-0.9%	5.1%
Avista Corp.	4.5%	4.8%	4.6%	3.3%	1.2%	3.6%	6.5%	11.1%
Black Hills	5.3%	5.2%	5.0%	3.5%	2.6%	2.8%	5.0%	10.0%
CH Energy Group	5.2%	5.3%	5.2%	1.4%	0.5%	2.2%	1.5%	6.7%
CMS Energy Corp.	3.9%	3.9%	3.8%	2.1%	-6.4%	5.4%	9.7%	13.5%
Gen. Vermont Pub. Se	4.5%	4.5%	4.4%	2.7%	2.2%	3.1%	3.5%	7.9%
CenterPoint Energy	5.4%	5.6%	5.5%	4.6%	3.3%	5.0%	5.5%	11.0%
Cleco Corp.	3.8%	3.9%	3.8%	4.5%	3.5%	5.3%	5.9%	9.7%
Consol. Edison	5.3%	5.5%	5.5%	2.2%	1.8%	2.8%	2.5%	8.0%
Constellation Energy	2.8%	2.8%	2.7%	4.7%	5.2%	7.5%	3.3%	6.0%
Dominion Resources	4.8%	4.8%	4.7%	5.0%	3.5%	6.8%	6.7%	11.4%
DPL Inc.	4.3%	4.5%	4.4%	6.2%	4.5%	12.0%	6.9%	11.3%
DTE Energy	4.8%	4.8%	4.7%	2.5%	0.9%	3.4%	4.3%	9.0%
Duke Energy	5.8%	6.0%	6.0%	3.1%	0.0%	1.9%	2.6%	8.6%
Edison Int'l	3.7%	3.8%	3.8%	6.7%	8.5%	7.2%	4.4%	8.2%
Empire Dist. Elec.	6.9%	7.0%	7.0%	2.4%	0.4%	7.9%	3.2%	10.2%
Exelon Corp.	4.5%	4.8%	4.7%	6.7%	10.0%	9.1%	3.6%	8.3%
G't Plains Energy	4.4%	4.6%	4.5%	0.5%	-1.1%	2.1%	2.6%	7.1%
Hawaiian Elec.	6.0%	6.0%	6.0%	1.4%	-1.3%	1.7%	3.7%	9.7%
IDACORP, Inc.	3.7%	3.6%	3.5%	1.4%	-0.9%	3.7%	4.3%	7.8%
Integrus Energy	6.3%	6.0%	5.8%	3.7%	4.1%	2.2%	3.5%	9.3%
MGE Energy	4.3%	4.3%	4.2%	4.4%	4.3%	4.2%	4.6%	8.8%
NV Energy Inc.	3.9%	3.9%	3.8%	-0.7%	-6.6%	4.3%	5.6%	9.4%
Northeast Utilities	3.9%	3.9%	3.9%	4.8%	3.6%	4.1%	6.4%	10.3%
Otter Tail Corp.	5.3%	5.8%	5.6%	3.4%	1.8%	1.3%	6.2%	11.8%
Pepco Holdings	6.4%	6.4%	6.4%	3.5%	5.7%	1.7%	2.3%	8.7%
PG&E Corp.	4.1%	4.3%	4.2%	6.4%	6.1%	6.0%	6.8%	11.0%
Pinnacle West Capital	5.7%	5.7%	5.6%	3.0%	3.4%	1.6%	2.9%	8.5%
PNM Resources	4.0%	4.0%	3.9%	3.0%	1.3%	2.0%	5.1%	9.0%
Progress Energy	6.3%	6.5%	6.4%	1.8%	0.9%	1.9%	3.0%	9.4%
Public Serv. Enterprise	4.4%	4.5%	4.5%	5.7%	4.1%	9.5%	7.1%	11.6%
TECO Energy	5.0%	5.2%	5.1%	-0.4%	-5.1%	4.0%	5.7%	10.8%
UIL Holdings	6.2%	6.2%	6.1%	1.9%	-2.0%	1.7%	2.4%	8.6%
UniSource Energy	4.1%	5.1%	5.1%	7.1%	4.7%	8.3%	11.3%	16.4%
Vectren Corp.	5.7%	5.8%	5.6%	3.7%	3.3%	3.0%	4.1%	9.7%
Westar Energy	5.6%	5.7%	5.7%	3.2%	2.2%	2.3%	5.1%	10.8%
Xcel Energy Inc.	4.7%	4.8%	4.7%	1.4%	-1.5%	4.0%	5.0%	9.7%
<b>Average</b>	<b>4.9%</b>	<b>5.0%</b>	<b>4.9%</b>	<b>3.3%</b>	<b>1.8%</b>	<b>4.2%</b>	<b>4.7%</b>	<b>9.6%</b>
SCANA Corp.	5.2%	5.3%	5.2%	3.8%	3.8%	3.6%	3.9%	9.1%

# South Carolina Electric & Gas

## Docket No. 2009-489-E

Company	% Retained to Common Equity				
	2009	2010E	2011E	13-'15E	Average
ALLETE	0.5%	1.0%	1.5%	2.0%	1.3%
Allegheny Energy	9.5%	8.0%	8.5%	7.5%	8.4%
Alliant Energy	3.5%	3.0%	3.0%	3.5%	3.3%
Amer. Elec. Power	4.6%	4.5%	5.0%	4.5%	4.7%
Ameren Corp.	3.5%	3.0%	3.0%	3.5%	3.3%
CH Energy Group	1.9%	2.0%	2.5%	2.5%	2.2%
CMS Energy Corp.	4.1%	6.5%	6.0%	5.0%	5.4%
Gen. Vermont Pub. Serv.	3.0%	3.5%	3.0%	3.0%	3.1%
CenterPoint Energy	3.6%	5.0%	5.5%	6.0%	5.0%
Cleco Corp.	4.5%	6.0%	5.5%	5.0%	5.3%
Consol. Edison	2.0%	2.5%	3.0%	3.5%	2.8%
Constellation Energy	nmf	8.0%	7.5%	7.0%	7.5%
Dominion Resources	6.3%	7.5%	7.0%	6.5%	6.8%
DPL Inc.	9.0%	12.0%	13.5%	13.5%	12.0%
DTE Energy	2.9%	3.5%	3.5%	3.5%	3.4%
Duke Energy	1.0%	2.0%	2.0%	2.5%	1.9%
Empire Dist. Elec.	7.6%	8.5%	8.5%	7.0%	7.9%
Exelon Corp.	11.5%	8.0%	8.5%	8.5%	9.1%
G't Plains Energy	0.9%	2.0%	3.0%	2.5%	2.1%
Integrus Energy	nmf	1.0%	2.0%	3.5%	2.2%
MGE Energy	3.4%	4.0%	4.0%	5.5%	4.2%
Northeast Utilities	4.5%	4.0%	4.0%	4.0%	4.1%
Otter Tail Corp.	nmf	nmf	0.5%	2.0%	1.3%
Pepco Holdings	nmf	1.0%	1.5%	2.5%	1.7%
Progress Energy	1.5%	1.5%	2.0%	2.5%	1.9%
Public Serv. Enterprise	10.0%	10.0%	9.0%	9.0%	9.5%
TECO Energy	2.1%	4.0%	5.0%	5.0%	4.0%
UIL Holdings	1.2%	1.5%	1.5%	2.5%	1.7%
Vectren Corp.	2.5%	2.5%	3.0%	4.0%	3.0%
Westar Energy	0.7%	2.5%	2.5%	3.5%	2.3%

Sources: The Value Line Investment Survey, March 26, 2010; Feb. 26, 2010;

# South Carolina Electric & Gas

## Docket No. 2009-489-E

Company	% Retained to Common Equity				
	2008	2009	2010E	12-'14E	Average
Avista Corp.	3.7%	4.0%	3.5%	3.0%	3.6%
Black Hills	nmf	1.5%	2.5%	4.5%	2.8%
Edison Int'l	8.6%	6.0%	6.5%	7.5%	7.2%
Hawaiian Elec.	0.5%	nmf	1.5%	3.0%	1.7%
IDACORP, Inc.	3.4%	4.0%	4.0%	3.5%	3.7%
NV Energy Inc.	4.1%	3.0%	5.0%	5.0%	4.3%
PG&E Corp.	6.8%	5.5%	5.5%	6.0%	6.0%
PNM Resources	nmf	2.0%	1.0%	3.0%	2.0%
Pinnacle West Capital	0.3%	1.0%	2.0%	3.0%	1.6%
UniSource Energy	nmf	7.0%	6.5%	5.5%	6.3%
Xcel Energy Inc.	3.8%	3.5%	3.5%	5.0%	4.0%
SCANA Corp.	3.5%	3.5%	3.5%	4.0%	3.6%

Sources: The Value Line Investment Survey, March 26, 2010; February 26, 2010;  
and February 5, 2010



# South Carolina Electric & Gas

## Docket No. 2009-489-E

Company	% Return on Common Equity			
	2008	2009	2010E	2011E/12-14E
ALLETE	10.0%	6.6%	7.5%	7.5%
Allegheny Energy	13.9%	12.6%	11.5%	12.0%
Alliant Energy	9.3%	6.8%	9.0%	10.0%
Amer. Elec. Power	11.3%	10.4%	10.5%	10.0%
Ameren Corp.	8.7%	7.8%	7.5%	7.5%
Avista Corp.	7.4%	8.0%	8.0%	8.5%
Black Hills	0.7%	6.5%	7.5%	9.5%
CH Energy Group	6.7%	8.1%	8.5%	8.5%
CMS Energy Group	11.7%	8.5%	11.5%	11.5%
Cen. Vermont Pub. Serv.	7.3%	7.5%	7.5%	7.0%
CenterPoint Energy	21.9%	14.1%	15.5%	16.0%
Cleco Corp.	9.6%	9.5%	11.0%	11.0%
Consol. Edison	9.5%	8.5%	9.0%	9.5%
Constellation Energy	2.7%	3.0%	11.0%	10.5%
Dominion Resources	17.5%	15.5%	16.5%	15.5%
DPL Inc.	25.0%	20.7%	24.5%	26.5%
DTE Energy	7.4%	8.4%	8.5%	9.0%
Duke Energy	6.1%	6.7%	7.5%	8.0%
Edison Int'l	12.8%	10.5%	10.0%	11.0%
Empire Dist. Elec.	7.5%	6.9%	8.0%	9.0%
Exelon Corp.	24.6%	22.5%	18.0%	17.5%
G't Plains Energy	4.6%	4.8%	6.0%	7.0%
Hawaiian Elec.	6.5%	6.0%	10.0%	10.5%
IDACORP, Inc.	7.6%	8.0%	7.5%	7.5%
Integrus Energy	3.9%	6.1%	8.0%	8.5%
MGE Energy	11.0%	10.2%	10.5%	10.5%
NV Energy Inc.	6.7%	6.0%	8.0%	9.0%
Northeast Utilities	9.6%	9.0%	9.0%	9.0%
Otter Tail Corp.	5.1%	3.8%	6.5%	7.0%
PG&E Corp.	12.6%	11.5%	11.5%	12.0%
PNM Resources	0.5%	4.5%	3.5%	6.0%
Pepco Holdings	9.5%	5.0%	7.0%	7.0%
Pinnacle West Capital	6.2%	7.5%	8.0%	9.0%
Progress Energy	8.9%	9.0%	8.5%	9.0%
Public Serv. Enterprise	19.0%	18.0%	17.0%	16.0%
TECO Energy	8.1%	10.3%	12.0%	13.0%
UIL Holdings	10.1%	9.5%	10.0%	10.0%
UniSource Energy	2.1%	12.5%	12.0%	11.0%
Vectren Corp.	9.5%	10.5%	10.0%	10.5%
Westar Energy	6.2%	6.2%	8.0%	8.5%
Xcel Energy Inc.	9.2%	9.5%	9.5%	10.5%
Average	9.5%	9.2%	10.0%	10.4%
SCANA Corp.	11.4%	10.2%	10.0%	10.0%

Sources: The Value Line Investment Survey, March 26, 2010; February 26, 2010;  
and February 5, 2010

# South Carolina Electric & Gas

## Docket No. 2009-489-E

Component	Ratio (%)	Cost Rate (%)	Wgt'd. Cost Rate (%)	Retention Factor	Pre-Tax Cost of Cap
SCANA Corp. Capital Structure					
Long-Term Debt	55.35%	6.13%	3.39%	100.00%	3.39%
Common Equity	44.65%	11.60%	5.18%	61.47%	<u>8.43%</u>
Total Capitalization	100.00%				11.82%

Response to ORS No. 1-4

SCE&G Capital Structure					
Long-term Debt	47.04%	6.14%	2.89%	100.00%	2.89%
Common Equity	52.96%	11.60%	6.14%	61.47%	<u>9.99%</u>
Total Capitalization	100.00%				12.88%

Response to ORS No. 1-4

Difference in Pre-tax Cost of Capital Sought by SCE&G in Current Case	1.06%
Rate Base Requested	\$4,820,908,000
Effect of Double-Leverage In Current Case	\$51,267,580

### SCEUC Recommended Cost of Capital

Component	Ratio (%)	Cost Rate (%)	Wgtd. Cost Rate (%)
Long-Term Debt	55.35%	6.13%	3.39%
Common Equity	<u>44.65%</u>	9.50%	<u>4.24%</u>
Total Capitalization	100.00%		7.63%